2019
ANNUAL REPORT

Lakeland Bancorp, Inc.

LAKELAND BANCORP'S FOUNDING FATHERS BUILT AN INSTITUTION STEEPED IN THE PHILOSOPHY THAT SUCCESS WOULD COME FROM CONDUCTING BUSINESS CLEARLY AND HONESTLY, WHICH REMAINS AT THE CORE OF EVERYTHING WE DO.

Dear Fellow Shareholders,

In 2019, we celebrated the 50th anniversary of the founding of Lakeland Bank. The past five decades have been a period of almost continuous change, as the banking industry has experienced waves of consolidation, new customer demands, technological disruption, shifting regulatory priorities, and the emergence of non-bank competitors. What has remained constant, however, is Lakeland's deep commitment to exceptional customer service, shareholder value, our associates' advancement, and the well-being of our communities.

As we write this, the world is facing a new and unprecedented challenge from the COVID-19 pandemic. While it is impossible to gauge the impact of this crisis on individuals and institutions alike, our own response at Lakeland has been guided by the same values we described above – a concern for our customers, shareholders, associates and communities.

Accordingly, we have taken decisive actions to protect the health of our associates and customers while still delivering exceptional service – by initiating remote working plans, modifying the operations of some branches, and emphasizing mobile and online banking alternatives. We have invited individual and business customers to contact us for assistance with unexpected financial needs arising from the COVID-19 pandemic. We will be seeking additional ways to support residents and organizations in our communities who face economic hardship. And, shareholders can take comfort that our solid capital position will be a source of strength in difficult times.

Through all of this, we have been able to depend on the dedication, professionalism and spirit of our associates, and we cannot thank them enough. Over the past five decades, Lakeland has helped our customers, associates and neighbors overcome challenges of many kinds; we will come through this together and emerge stronger and more determined to succeed.

Performance and Progress

It is important to emphasize, in light of the present circumstances, that 2019 was a milestone year – noteworthy for continued progress and performance. We launched a major technology initiative to ensure that the Bank can meet the needs and expectations of those customers who increasingly conduct their financial lives digitally. The integration of Highlands Bancorp, Inc. and its Highlands State Bank subsidiary provided additional scale and resources to serve our marketplace.

Tom Shara and Mary Ann Deacon at NASDAQ on May 20, 2019

We continued to attract talented individuals to Lakeland, while investing in programs to develop our associates' potential. And, we delivered solid performance for our shareholders, with an eighth consecutive year of record earnings, and a strong 1.12% return on average assets.

We are honored that our performance was once again recognized by several independent organizations. Among the commendations we received during 2019 were the following:

- Forbes magazine and Statista named Lakeland Bank to the "America's Best-In-State Banks" list for 2019 – a ranking achieved by only the top 2.8% of all U.S. banks.
- We were recognized for the third straight year as one of New Jersey's 50 Fastest Growing Companies by NJBIZ, New Jersey's premier business news publication.
- Lakeland again received a 5-Star rating (the highest possible rating) by Bauer Financial, an independent bank rating agency, based on the Company's financial condition.
- Ellen Lalwani, EVP, Chief Banking Officer, was named by NJBIZ to the "Best 50 Women in Business" list, which honors women business leaders who are prominent in their companies and industries, as well as their communities.
- Two of our associates received the NJ Bankers Rising Star Award: Marlena Taglieri, CAMS, Senior Vice President, Bank Secrecy Act (BSA) and Fraud Officer, and Victoria Duffin, Vice President, Marketing and Consumer Insights. Awardees are chosen by a panel of independent judges based on exemplary leadership characteristics.

"OUR GOAL IS TO BECOME A DIGITALLY-ENABLED BUSINESS WITH THE ORGANIZATIONAL READINESS TO DELIVER THE OPTIMUM BANKING EXPERIENCE..."

In addition, to commemorate Lakeland's 50-year milestone and launch our next century of strength, service and progress, our Executive Team, Board of Directors and Founders rang the NASDAQ Stock Market opening bell on May 20, 2019.

2019 Financial Highlights

Lakeland's financial results for the year reflected record earnings, strong loan and deposit growth, and the seamless integration of the Highlands acquisition. Net income for 2019 was $70.7 million, an 11% increase compared to the prior year. Diluted EPS for 2019 was $1.38, compared to $1.32 for 2018. Excluding merger-related expenses (tax effected) of $2.4 million resulting from the Highlands acquisition, net income for 2019 was $73.0 million, or $1.43 per diluted share. Annualized return on average assets was 1.16%, annualized return on average common equity was 10.48%, and annualized return on average tangible common equity was 13.60%, after excluding merger-related expenses.

Total assets rose to $6.71 billion at year-end 2019, a year-over-year increase of 16% or $905.1 million, of which $496.5 million resulted from the Highlands acquisition. Total loans grew to $5.14 billion, reflecting organic growth of $256.1 million as well as the Highlands portfolio. Total deposits increased to $5.29 billion, rising by $263.5 million excluding Highlands. Asset quality remained strong, with non-performing assets just 0.32% of total assets at year-end 2019.

Our strong performance again enabled us to enhance returns for our shareholders. The Board of Directors increased the quarterly cash dividend rate to $0.125 from $0.115 during 2019. Reflecting the Board's view that Lakeland stock remains an attractive investment, a new share buyback program was announced in October 2019, authorizing the Company to repurchase up to 2,524,458 shares, or approximately 5%, of its outstanding common stock.

Digital Strategy Initiative

In banking, as in virtually every industry, innovations in digital technology are making the customer experience more accessible, personalized and self-directed. At the same time, new tools for analyzing data are helping banks to serve customers better, while artificial intelligence holds the potential to make systems and processes more efficient and cost-effective. In response, Lakeland inaugurated a comprehensive digital strategy initiative in 2019. This effort is intended to set the Company on a well-defined path to better serve our customers, remain relevant in the marketplace, sustain high performance, and deliver shareholder value in a digital age.

Our strategy is to focus on achieving transformation in such areas as data management, customer centricity, services, and operations. Overall, our goal is to become a digital-enabled business with the organizational readiness to deliver the optimum banking experience to customers, while ensuring our capacity for profitable growth through operational cost-effectiveness and excellence.

Developing Our Talent

We continued to invest in building the capabilities of our team, to ensure that we have talented, well-trained and motivated associates to respond to the challenges and opportunities of a changing industry and marketplace. The inaugural 2019 class of 18 Lakeland associates has successfully completed our Leader Engagement and Development (LEAD) Program, which was created to develop leadership abilities and cultivate effective management approaches.

To provide a competitive, rewarding workplace environment, we have introduced or enhanced several benefit programs. For example, associates can now "donate" paid time-off hours to their peers, who may need extra time to address personal or family situations. We build engagement at monthly roundtables where random groups of associates are invited to meet with senior executives and provide feedback on many topics. In addition to providing 16 hours of paid time off that associates can use to volunteer in their communities, we also offer wellness education, exercise classes and other recreational opportunities.

We continually seek to add members with diverse experience and skills to our Board of Directors. Early in 2020, we welcomed Brian Gragnolati, President and

CEO of Atlantic Health System, to the Lakeland Bancorp and Lakeland Bank boards. Brian's proven business expertise and leadership will add a valuable perspective.

Engaged in the Community

As a community banking institution, Lakeland plays a vital role in contributing to the well-being of the communities where our customers and associates live and work. In 2019, we donated over $1.0 million to charitable and nonprofit organizations. A few of our more significant community engagement efforts included the following:

- Lakeland's non-competitive Community and Housing Impact grant program provided over $200,000 to non-profit organizations that support and promote solutions to improve the quality of life in a community. Among the activities supported by Impact grants are programs and services that address homelessness and affordable housing, financial education and debt relief, and anti-poverty, health and well-being for women and children, as well as emergency services for food, shelter and clothing.
- We enhanced our First Time Homebuyer Program, offering a Subsidy Assist of up to $5,000 to eligible applicants who are buying or refinancing a home. The funds can be applied to a down payment or closing costs.
- Our 47th Annual Scholarship Golf Outing raised a record $225,000, which will aid students graduating in 2020 from local high schools, who have demonstrated academic success and an interest in pursuing a higher education. In 2019, we provided 105 students with scholarships, and to-date these annual events have raised over $2.0 million for scholarship grants.
- To celebrate our 50th anniversary, the Bank encouraged customers and community members to nominate local non-profit organizations for a chance to win one of five $1,000 donations. The winning organizations were: Push to Walk, Jefferson Arts Committee, Sojihuggles Children's Foundation, Bergen Habitat for Humanity, and Dress for Success.
- We again sponsored the annual Sussex County Golf Classic in 2019, raising $70,000 for local charitable organizations that serve the local community.

These contributions, the volunteer hours provided by our associates, and our many other community-oriented activities reflect Lakeland's 50-year commitment to our customers, associates, neighbors and friends.

Strategic Platform for the Next 50 years

Lakeland's performance across five decades was built upon a solid strategic platform – which will continue to support our progress during the next 50 years:

- A valuable community banking franchise, reinforced by a shared spirit of corporate responsibility and citizenship.
- A proven commitment to outstanding customer service.
- A team of highly talented individuals who bring a spirit of integrity, excellence and engagement to everything they do.
- And, the ability to deliver profitable growth, to invest in innovation, and to operate in an efficient and prudent manner.

Lakeland still reflects the spirit of integrity, service and excellence established by our founders 50 years ago. In this regard, we wish to acknowledge the passing of Bruce G. Bohuny, one of the Bank's three founders, who passed away in September 2019. Bruce served proudly on our Board of Directors as Secretary from 1969-2006, and we will continue to work to honor his legacy.

In closing, we want to thank our Board for their leadership, our associates for their passion and professionalism, and our customers and shareholders for the confidence they have placed in Lakeland. We look forward to sustaining our strength, service and success for many years to come.

Sincerely,

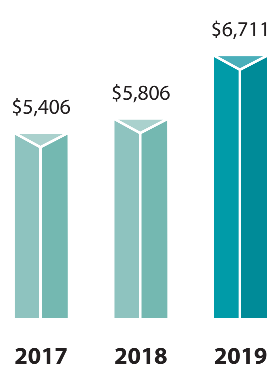
Thomas J. Shara
President & CEO

Mary Ann Deacon
Chairman of the Board

FINANCIAL HIGHLIGHTS Lakeland Bancorp, Inc. and Subsidiaries

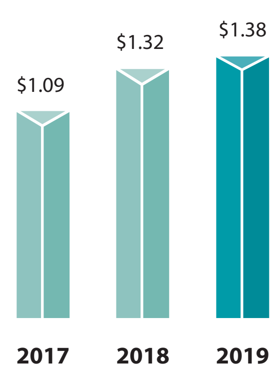
FOR THE YEAR *(dollars and shares in thousands, except per-share data)*	2019	2018	2017
Net Income	**$ 70,672**	$ 63,401	$ 52,580
Return on Average Assets	**1.12%**	1.15%	1.00%
Return on Average Stockholders' Equity	**10.14%**	10.59%	9.25%
Net Interest Margin	**3.33%**	3.36%	3.38%
Efficiency Ratio	**54.83%**	56.09%	53.40%
Tangible Common Equity Ratio	**8.62%**	8.57%	8.44%
Dividends Paid on Common Stock	**$ 24,919**	$ 21,307	$ 18,853
PER-SHARE DATA			
Earnings Per Share:			
— Basic	**$ 1.39**	$ 1.32	$ 1.10
— Diluted	**$ 1.38**	$ 1.32	$ 1.09
Cash Dividends Per Common Share	**$ 0.49**	$ 0.45	$ 0.40
Book Value Per Common Share	**$ 14.36**	$ 13.14	$ 12.31
Tangible Book Value Per Common Share	**$ 11.18**	$ 10.22	$ 9.38
Weighted Average Shares Outstanding:			
— Basic	**50,477**	47,578	47,438
— Diluted	**50,642**	47,766	47,674
AT YEAR END			
Loans, Net of Deferred Fees	**$5,137,823**	$ 4,456,733	$ 4,152,720
Total Deposits	**5,293,779**	4,620,670	4,368,748
Total Assets	**6,711,236**	5,806,093	5,405,639
Stockholders' Equity	**725,263**	623,739	583,122
Loans to Deposits	**97.05%**	96.45%	95.06%
Ratio of Net Charge-Offs to Average Loans Outstanding	**0.00%**	0.05%	0.05%
Ratio of Non-Performing Assets to Total Assets	**0.32%**	0.22%	0.27%
Tier 1 Leverage Ratio	**9.41%**	9.39%	9.12%
Tier 1 Risk-Based Capital Ratio	**11.02%**	11.27%	10.87%
Total Risk-Based Capital Ratio	**13.40%**	13.71%	13.40%
CET1 Ratio	**10.46%**	10.62%	10.18%

TOTAL ASSETS
(in millions)



NET INCOME
(in millions)

DILUTED EARNINGS PER SHARE



LAKELAND BANCORP AND LAKELAND BANK BOARD OF DIRECTORS

Mary Ann Deacon
Secretary and Treasurer,
Deacon Homes, Inc.

Thomas J. Shara
President and
CEO, *Lakeland Bancorp, Inc.*

Bruce D. Bohuny
President,
Brooks Builders

Brian M. Flynn
CPA and Partner,
PKF *O'Connor Davies*

Mark J. Fredericks
President,
Keil Oil, Inc., and Fredericks Fuel and Heating Service

Brian Gragnolati
President and CEO,
Atlantic Health System

James E. Hanson II
President and CEO,
The Hampshire Companies

Janeth C. Hendershot
Former Senior Vice President,
Munich-American Risk Partners

Lawrence R. Inserra, Jr.
Chairman of the Board
and CEO,
Inserra Supermarkets, Inc.

Robert E. McCracken
Funeral Director/Manager,
Smith-McCracken Funeral Home

Robert Nicholson III
President and CEO,
Northern Resources Corporation

CHAIRMEN EMERITUS

John W. Fredericks

Robert B. Nicholson

EXECUTIVE MANAGEMENT TEAM

Thomas J. Shara
President and
Chief Executive Officer

Ronald E. Schwarz
Sr. Executive Vice President
and Chief Operating Officer

Paul Ho-Sing-Loy
Executive Vice President and
Chief Information Officer

Ellen Lalwani
Executive Vice President and
Chief Banking Officer

Timothy Matteson
Executive Vice President/
Chief Administrative Officer/General
Counsel and Corporate Secretary

James M. Nigro
Executive Vice President
and Chief Risk Officer

John F. Rath III
Executive Vice President and
Chief Lending Officer

Thomas F. Splaine, Jr.
Executive Vice President and
Chief Financial Officer

Jenifer Thoma
Executive Vice President and
Chief Human Resources Officer

BUILDING A TALENTED TEAM

Responding to the challenges and opportunities of a rapidly changing business environment, Lakeland has continued to build a team with the skills, experience and motivation to drive our future performance and progress. In 2019, we expanded our already strong roster of talented professionals, adding individuals with capabilities in areas that will be essential to our future growth.

Ellen Lalwani, EVP,
Chief Banking Officer

Recognizing Leadership

We are proud that Ellen Lalwani, EVP, Chief Banking Officer, was named to the "Best 50 Women in Business" list by NJBIZ in April 2019. The award recognizes women business leaders who are prominent in their companies, industries and communities – and who are helping to shape the economic and civic future of New Jersey.

Ellen joined Lakeland in 2008, following a distinguished career with several other banking institutions. After serving as Senior Vice President, Director of Retail Sales and EVP, Chief Retail Officer, she was promoted to her current position in 2020. Throughout her tenure with Lakeland, Ellen has consistently empowered, inspired and motivated those around her to achieve the results needed for the Company to be successful in this competitive financial industry. At the same time, her leadership style emphasizes mentorship and a dedication to community service.

The "Best 50 Women in Business" award not only honors Ellen's achievements, but also reflects the quality team we are building at Lakeland – as they strive to provide exceptional service to our customers, contribute to our profitable growth, and make a positive impact on our communities.

Trish Nuccio, First SVP,
Director of Digital Strategy

Building for a Better Tomorrow

To unlock the vast potential of digital banking, we must ensure that we use technology to our best advantage in enhancing customer service, operating efficiency and performance. Accordingly, Lakeland has created an internal Digital Transformation Team to onboard the expertise we need in the emerging world of digital business.

Leading the Digital Transformation Team is Trish Nuccio, who joined the Company in early 2020 as First Senior Vice President, Director of Digital Strategy. Trish is extremely knowledgeable regarding digital transformation, having led several strategic technology implementations and related projects for major financial institutions. Her expertise and fresh thinking will help to advance Lakeland's digital strategies. Under Trish's direction, we will be adding a number of project management experts to work on key digital initiatives across various departments of the Company.

Ron Krauskopf, Sr. Vice President and Team Leader of Healthcare Banking

Roberto Camacho, Vice President of Healthcare Banking

Maya Silvis, Portfolio Manager of Healthcare Banking

Expanding Our Financing Solutions

Healthcare is one of New Jersey's key business sectors, and in 2019 we established a specialized Healthcare Banking Team to serve the financing and cash management needs of providers across the healthcare spectrum. The team is responsible for building relationships with large medical practices, senior living facilities, hospitals and health systems, specialty medical facilities, not-for-profit organizations, healthcare real estate investment firms, and private equity partnerships within the healthcare industry, by providing customers with the financing and banking solutions that meet their needs.

Joining Lakeland as Senior Vice President and Team Leader is Ron Krauskopf, a veteran healthcare banker with deep expertise in the New Jersey healthcare market. Ron also is a member of the Dean's Advisory Council of the Rutgers School of Public Health. He will be responsible for overseeing relationship development, managing day-to-day operations, and ensuring that the team remains current with trends affecting the industry.

Also joining the new team is Roberto Camacho, Vice President, who brings extensive experience in commercial banking, with a sharp healthcare focus in New Jersey and New York.

Maya Silvis joined Lakeland's Healthcare Banking Team in 2019 as a portfolio manager. She has previously held positions in credit department management and has over 15 years of commercial credit banking experience in New Jersey and Massachusetts.

Brian Gragnolati, President and CEO, Atlantic Health System

Adding Depth at the Board Level

As we face new business challenges, it is important to have the guidance and leadership of a Board of Directors with a breadth of experience, skills and perspectives. In this regard, we are pleased to announce that Brian Gragnolati was named to the boards of both Lakeland Bancorp, Inc. and Lakeland Bank in January 2020.

Brian is President and CEO of Atlantic Health System, an integrated healthcare delivery system with 17,000 employees that serves more than half the state of New Jersey. He also is Immediate Past Chairman of the Board of Trustees of the American Hospital Association and has been an advocate with public officials on issues affecting hospitals, patients and the community. Brian's extensive business expertise and commitment to providing community-focused, innovative services to New Jersey citizens are welcome additions to our Board. He serves on the Company's Nominating and Corporate Governance and Policy Committees and as the Board liaison with our Healthcare Banking team.

LAKELAND BANCORP OFFICERS

Mary Ann Deacon
Chairman of the Board

Thomas J. Shara
President and Chief Executive Officer

Ronald E. Schwarz
Sr. Executive Vice President and Chief Operating Officer

Paul Ho-Sing-Loy
Executive Vice President and Chief Information Officer

Ellen Lalwani
Executive Vice President and Chief Banking Officer

Timothy Matteson
Executive Vice President/Chief Administrative Officer/General Counsel and Corporate Secretary

James M. Nigro
Executive Vice President and Chief Risk Officer

John F. Rath III
Executive Vice President and Chief Lending Officer

Thomas F. Splaine, Jr.
Executive Vice President and Chief Financial Officer

LAKELAND BANK OFFICERS

PRESIDENT/CEO

Thomas J. Shara

EXECUTIVE VICE PRESIDENTS

Ronald E. Schwarz
Sr. Executive Vice President and Chief Operating Officer

Steve Ackmann
Executive Vice President

Karen Garrera
Executive Vice President and Chief Retail Officer

Paul Ho-Sing-Loy
Executive Vice President and Chief Information Officer

Ellen Lalwani
Executive Vice President and Chief Banking Officer

Timothy Matteson
Executive Vice President/Chief Administrative Officer/General Counsel and Corporate Secretary

James M. Nigro
Executive Vice President and Chief Risk Officer

Stephen C. Novak
Executive Vice President / Senior Commercial Real Estate Officer & Group Leader

James R. Noonan
Executive Vice President and Chief Credit Officer

John F. Rath III
Executive Vice President and Chief Lending Officer

Thomas F. Splaine, Jr.
Executive Vice President and Chief Financial Officer

Jenifer Thoma
Executive Vice President and Chief Human Resources Officer

David S. Yanagisawa
Executive Vice President/Senior Loan Officer/Commercial Lending

FIRST SENIOR VICE PRESIDENTS

Brendan Eccleston
First SVP/Deputy General Counsel

Mary T. Karakos
First SVP/Commercial Loan/ Chief Loan Administrative Officer

Rita A. Myers
First SVP/Comptroller

Bharat G. Naran
First SVP/Technology Services Group Director

Mary Kaye Nardone
First SVP/Chief Information Security Officer

Patricia Nuccio
First SVP/Director of Digital Strategy

Elaine C. Petit
First SVP/Director of Enterprise Solutions

Thomas Christopher Stackhouse
First SVP/Senior Credit Officer

Leonard Van Dam
First SVP/Group Leader/Commercial Loans

Laurie A. Veith
First SVP/Deposit Operations

SENIOR VICE PRESIDENTS

Alethea Batts
SVP/Learning & Development

Susan Scimone-Bellini
SVP/Senior Regional Administrator

Kenneth Bostwick, Jr.
SVP/Director of Retail Sales

Bruce Bready
SVP/Small Business Lending Manager

Steven Breeman
SVP/Asset Based Lending Team Leader

Leonard Carlucci
SVP/Commercial Loan Team Leader *(Waldwick)*

Raymond Cordts
SVP/Business Development Officer

Robert Feldmann
SVP/Commercial Loan Team Leader (Denvillle and Totowa)

Laura A. Ferraro
SVP/Retail Lending

Tina George
SVP/Facilities & Maintenance Officer

Daniel S. Gonzalez
SVP/Commercial Loan Team Leader (Ocean County)

Carl Grau
SVP/Business Intelligence and eBanking

Robert Ingram
SVP/Equipment Finance Director

Julie Koop
SVP/Human Resources

Ronald G. Krauskopf
SVP/Healthcare Lending Commercial Team Leader

Daniel Leary
SVP/Business Banking Manager`

Nina E. Luongo
SVP/Government Banking and Cash Management Officer

Richard Machtinger
Credit Special Assets Officer

Maureen G. Martin
SVP/Director of Marketing

Lisa Mills
SVP/Compliance Officer

Nancy Minette
SVP/Professional Services

Debra J. Morgan
SVP/Market Manager

Harry W. Neinstedt
SVP/Commercial Loan Team Leader *(Montville)*

M. Keith Niedergall
SVP/Regional Administrator *(Northern Region)*

Anthony Penta
SVP/Commercial Loan Team Leader *(Middlesex/Monmouth)*

Theresa Ruvo
SVP/Branch Administrator

Neill Schreyer
SVP/Asset Recovery Manager

Susan K. Smith
SVP/Credit Administration Manager

Marlena Taglieri
SVP/BSA-AML Officer

Drew TerWaarbeek
SVP/Regional Administrator *(Southern Region)*

Jody Michael Tobia
SVP/Lakeland Mortgage

Vickie Tomasello
SVP/Chief Audit Officer

Henrik Tvedt Jr.
SVP/Product & Delivery Channel Manager

Timothy Van Slooten
SVP/Financial Services Program Manager

David Ver Hage
SVP/Loan Operations Manager

Michael J. Vessa
SVP/Commercial Loan Officer *(Bernardsville)*

Jeffrey Wichman
SVP/Credit Manager

Samuel R. Wilson
SVP/Commercial Loan Team Leader *(Bernardsville)*

CORPORATE ADVISORY COUNCIL

Jon F. Hanson II, Council Chairman
Chairman, The Hampshire Companies, LLC

Daniel J. Geltrude, CPA
Managing Member, Geltrude & Company, LLC

Jerrold Grossman, PhD
President, Genesis BPS

Jerome Lombardo
President, CJ Lombardo Company

Bruce M. Meisel
CEO, First Westwood Realty, LLC

Charles H. Shotmeyer
President, Shotmeyer Brothers

LAKELAND BANK OFFICES

NEW JERSEY

BERGEN

Carlstadt
325 Garden Street

Englewood
42 North Dean Street

Hackensack-Main Street
25 Main Street

Hackensack-Polifly Road
9 Polifly Road

Park Ridge
165 Kinderkamack Road

Rochelle Park
1 East Passaic Street

Teaneck
417 Cedar Lane

Waldwick
64 Crescent Avenue

Westwood
21 Jefferson Avenue

Wyckoff
652 Wyckoff Avenue

ESSEX

Caldwell
49-53 Bloomfield Avenue

Nutley
356 Franklin Avenue

West Caldwell
995 Bloomfield Avenue

MORRIS

Boonton
321 West Main Street

Butler
1410 Route 23 North

Butler-Carey Avenue
6 Carey Avenue

Denville
55 Broadway

Madison
265 Main Street

Mendham
106 East Main Street, Suite A

Milton
5729 Berkshire Valley Road

Montville
166 Changebridge Road

Morristown
151 South Street

Pompton Plains
901 Route 23 South

Pompton Plains-Cedar Crest Village
1 Cedar Crest Drive

Pompton Plains-Woodland Commons
1 Woodland Commons

Wharton
350 North Main Street

OCEAN

Jackson
2120 West County Line Road

Lakewood
500 River Avenue

Toms River
104 Route 37 East

PASSAIC

Bloomingdale
28 Main Street

Clifton
11 Ackerman Avenue

Little Falls
86-88 Main Street

Newfoundland
2717 Route 23 South

Ringwood
45 Skyline Drive

Totowa
650 Union Blvd # 1

Wanaque
103 Ringwood Avenue

Wayne
231 Black Oak Ridge Road

West Milford
1527 Union Valley Road

SOMERSET

Bernardsville
155 Morristown Road

SUSSEX

Andover
615 Route 206 North

Branchville Downtown
3 Broad Street

Franklin
25 Route 23 South

Fredon
395 Route 94 North

Lafayette
37 Route 15 South

Newton-Hampton
11 Hampton House Road

Sparta
7 Town Center Drive

Stanhope
143 Route 183 North

Wantage
455 Route 23 North

Vernon
529 Route 515 South, Suite 101

UNION

Summit
510 Morris Avenue

NEW YORK

ORANGE

Highland Mills
556 State Route 32 North

REGIONAL LOAN OFFICES

Bernardsville
155 Morristown Road

Denville
4 Second Avenue, Suite 204

Highland Mills, NY
556 State Route 32 North

Jackson
2120 West County Line Road

Montville
166 Changebridge Road

Oak Ridge
250 Oak Ridge Road

Teaneck
417 Cedar Lane

Totowa
650 Union Blvd # 1

Corporate Headquarters
250 Oak Ridge Road
Oak Ridge, NJ 07438

Commercial Real Estate Office
64 Crescent Avenue
Waldwick, NJ 07463

Loan Production Office
485 Route 1 South
Iselin, NJ 08830

Milton Annex
5736 Berkshire Valley Road
Oak Ridge, NJ 07438

Milton Operations & Training Center
5716 Berkshire Valley Road
P.O. Box 326
Oak Ridge, NJ 07438

CONNECTED TO OUR COMMUNITY

Lakeland associates form a pink ribbon to support
Breast Cancer Awareness Month

Our colleagues love to volunteer for Habitat for Humanity

Supporting the Partnership for Healthy Eating in Englewood

The 2019 Scholarship Golf Outing raised a record $225,000 for scholarships

Over $1 million has been raised for local charities since the inaugural
Sussex County Golf Classic

Oasis: A Haven for Women and Children was a recipient of the
Bank's Community Impact Grant

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K/A

(Amendment No. 1)

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED December 31, 2019.

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _________ TO _________.
Commission file number: 000-17820

LAKELAND BANCORP, INC.

(Exact name of registrant as specified in its charter)

New Jersey	22-2953275
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

250 Oak Ridge Road, Oak Ridge, New Jersey 07438
(Address of principal executive offices and zip code)

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

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

Title of Each Class	Trading Symbol	Name of exchange on which registered
Common Stock, no par value	LBAI	The Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

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

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

As of June 30, 2019, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $780,779,539, 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 February 25, 2020, was 50,513,886.

DOCUMENTS INCORPORATED BY REFERENCE:

Lakeland Bancorp, Inc. Proxy Statement for its 2020 Annual Meeting of Shareholders (Part III).

EXPLANATORY NOTE

This Amendment No. 1 (this "Amendment") amends the Annual Report on Form 10-K for the year ended December 31, 2019 (the "Form 10-K"), as filed with the Securities and Exchange Commission on March 2, 2020, and is being filed solely to correct an administrative error to include the disclosure of auditor tenure in The Report of Independent Registered Public Accounting Firm under Item 8 of the Form 10-K. The included disclosure on auditor tenure is as follows: "*We have served as the Company's auditor since 2013*." This change to the originally filed version of KPMG LLP's report does not affect KPMG's unqualified opinion on the Company's consolidated financial statements included in the original Form 10-K and this Amendment.

This Amendment includes currently-dated certifications by our Principal Executive Officer and Principal Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 as exhibits 31.1, 31.2 and 32 hereto, as well as a currently-dated consent of KPMG as exhibit 23.1 hereto.

For ease of reference, this Amendment amends the original Form 10-K in its entirety, making only the amendments described above. Except as described above, this Amendment does not otherwise amend, update or change any other information or disclosure contained in the original Form 10-K. This Amendment speaks only as of the date of the original Form 10-K and does not reflect any events that may have occurred subsequent to the date of the original Form 10-K.

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"). Lakeland currently operates 52 branch offices located throughout Bergen, Essex, Morris, Ocean, Passaic, Somerset, Sussex, and Union counties in New Jersey and in Highland Mills, New York; six New Jersey regional commercial lending centers in Bernardsville, Iselin, Jackson, Montville, Teaneck and Waldwick; and one New York commercial lending center to serve the Hudson Valley region. Lakeland offers an extensive suite of financial products and services for businesses and consumers.

The Company has grown through a combination of organic growth and acquisitions. Since 1998, the Company has acquired eight community banks with an aggregate asset total of approximately $2.28 billion, including its most recent acquisition of Highlands State Bank and its parent, Highlands Bancorp, Inc. ("Highlands Bancorp"), which was completed on January 4, 2019. All of the acquired banks have been merged into Lakeland and the acquired holding companies, if applicable, have been merged into the Company.

At December 31, 2019, Lakeland Bancorp had total consolidated assets of $6.7 billion, total consolidated deposits of $5.3 billion, total consolidated loans, net of the allowance for loan losses, of $5.1 billion and total consolidated stockholders' equity of $725.3 million.

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

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 commercial real estate loans, commercial and industrial loans, short and medium term loans, lines of credit, letters of credit, inventory and accounts receivable financing, real estate construction loans, mortgage loans, small business administration ("SBA") loans and merchant credit card services. Through Lakeland's equipment financing division, the Company provides a financing 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. Lakeland offers internet banking, mobile banking, wire transfer 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, interest-bearing checking accounts, money market accounts, certificates of deposit, internet banking, secured and unsecured loans, consumer installment loans, mortgage loans, and safe deposit services.

Other Services

Investment advisory services for individuals and businesses are also available. Additionally, through Lakeland Title Group LLC, the Bank provides commercial title insurance services and life insurance products through Lakeland Financial Services Agency, Inc.

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, financial technology and other institutional lenders. Lakeland primarily competes for loan originations through its structuring of loan transactions and the overall quality of service it provides. Competition is affected by the availability of lendable funds, general and local economic conditions, interest rates, and other factors that are not readily predictable. The Company expects that competition will continue in the future.

Concentration

The Company is not dependent on deposits or exposed by loan concentrations to a single customer or a few 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, 2019, the Company had 692 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 has also elected financial holding company status under the Modernization Act, as further discussed below. The Company is subject to examination by the Federal Reserve Board.

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

The Holding Company Act

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

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

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

Regulation of Bank Subsidiaries

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

Commitments to Affiliated Institutions

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

Interstate Banking

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits bank holding companies to acquire banks in states other than their home state, regardless of applicable state law. New Jersey enacted legislation to authorize interstate banking and branching and the entry into New Jersey of foreign country banks. New Jersey did not authorize de novo branching into the state. However, under federal law, federal savings banks, which meet certain conditions, may branch de novo into a state, regardless of state law. The Dodd-Frank 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 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") imposes a variety of corporate governance, accounting and corporate reporting obligations upon public companies, designed in general to promote 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 blackout 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 adoption of charters for the nominating and corporate governance, compensation 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. The SEC maintains a website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, such as the Company.

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

Effect of Government Monetary Policies

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

Dividend Restrictions

The Company is a legal entity separate and distinct from Lakeland. Virtually all of the revenue of the Company available for payment of dividends on its capital stock will result from amounts paid to the Company by Lakeland. All such dividends are subject to various limitations imposed by federal and state laws and by regulations and policies adopted by federal and state regulatory agencies. Under New Jersey 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 applicable 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 implemented 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 revised 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-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 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 4.0% (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." As of the full phase-in on January 1, 2019, Lakeland Bancorp and Lakeland Bank were 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 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 were phased in as of 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 were permitted to 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. With the capital conservation buffer fully phased in as of January 1, 2019, the capital ratios applicable to depository institutions under the Basel Rules exceed the ratios to be considered well-capitalized under the prompt corrective action regulations.

As of December 31, 2019, Lakeland Bancorp and Lakeland Bank met all capital requirements under the Basel Rules as then in effect, including the fully phased-in capital conservation buffer requirement.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA") was signed into law in May 2018. The EGRRCPA, among other matters, amended the Federal Deposit Insurance Act to require federal banking agencies to develop a specified Community Bank Leverage Ratio (the ratio of a bank's Tier 1 capital to its average total consolidated assets) for banks with assets of less than $10 billion. Qualifying participating banks that exceed this ratio shall be deemed to comply with all other capital and leverage requirements. In September 2019, the FDIC approved a final rule allowing community banks with a leverage capital ratio of at least 9% to be considered in compliance with Basel III capital requirements and exempt from the Basel Rules calculations. Under the final rule, banks with less than $10 billion in assets may elect the Community Bank Leverage Ratio framework if they meet the 9% ratio and if they hold 25% or less of assets in off-balance sheet exposures, and 5% or less of assets in trading assets and liabilities. For institutions that fall below the 9% capital requirement but remain above 8%, the final rule establishes a two-quarter grace period to either meet the qualifying criteria again or comply with the generally applicable capital rule. An eligible financial institution that opts into this new framework and then fails to satisfy this new framework after expiration of the grace period will then be required to satisfy the generally applicable capital requirements. Management is still reviewing the Community Bank Leverage Ratio framework, but does not expect that Lakeland Bancorp or Lakeland Bank will elect to use the Community Bank Leverage Ratio framework.

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. The Volcker Rule prohibits a covered 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. In 2019, the federal regulators jointly issued final rules to amend the Volcker Rule in a manner consistent with statutory amendments made pursuant to EGRRCPA, to exclude from the Volcker Rule's prohibitions and restrictions banking entities that have total consolidated assets equal to $10 billion or less and total trading assets and liabilities equal to 5% or less of total consolidated assets. 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. 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.

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%. In March 2016, the FDIC adopted a rule that imposes a surcharge on the quarterly assessments of insured depository institutions with total consolidated assets of $10 billion or more. The surcharge equals an annual rate of 4.5 basis points applied to the institution's assessment base, with certain adjustments. When the Deposit Insurance Fund (DIF) Reserve Ratio is at or above 1.38% in a given quarter, credits will be applied to banks' assessment payments. The Company began receiving the Small Bank Assessment credit in the third quarter of 2019 and, as a result, made no FDIC assessment payments in the third and fourth quarter of 2019. The Company paid $908,000 in total FDIC assessments in 2019 and $1.6 million in 2018.

In addition to deposit insurance assessments, the FDIC was 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 remained outstanding. The last of the remaining FICO bonds matured in September 2019 with the final FICO assessment collected in 2019. Lakeland paid FICO premiums of approximately $17,000 in 2019 and $149,000 in 2018.

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 applied 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."

- *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. See "Federal Deposit Insurance and Premiums."

- *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.

- *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.

- *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.

- *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.

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") require 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 government-sponsored enterprise ("GSE"), Federal Housing Administration ("FHA") and Veterans Affairs ("VA") underwriting and eligibility guidelines may, for a period not to exceed seven years, meet the QM Rule 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.

2018 Regulatory Reform

The EGRRCPA, enacted in May 2018, repeals or modifies certain provisions of the Dodd-Frank Act and eases certain regulations on smaller banks. Highlights of the EGRRCPA include, among other items: (i) simplifying capital calculations for eligible community banks that elect to opt into the new Community Bank Leverage Ratio framework; (ii) modifying risk weight exposures, allowing banks to classify certain credit facilities as regular commercial real estate exposures instead of high volatility commercial real estate exposures for purposes of calculating their risk-weighted capital requirements; (iii) expanding the definition of qualified mortgages which may be held in portfolio; and (iv) excluding from "banking entities" subject to the Volcker Rule certain firms that have total consolidated assets equal to $10 billion or less and total trading assets and liabilities equal to 5% or less of total consolidated assets. See "Capital Requirements" and "Volcker Rule" above.

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.

Credit Risks

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

Like all commercial banks, Lakeland Bank maintains an allowance for loan losses to provide for loan defaults and non-performance. If our allowance for loan losses is not adequate to cover actual loan losses, we may be required to significantly increase future provisions for loan losses, which could materially and adversely affect our operating results. Our allowance for loan losses is determined by analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolution, the opinions of our regulators, changes in the size and composition of the loan 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 losses. While we believe that our allowance for loan 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 losses or that the regulators will not require us to increase this allowance. Future increases in our allowance for loan losses could materially and adversely affect our earnings and profitability.

A change in accounting standards, which is effective for the Company beginning January 1, 2020, could also cause an increase in Lakeland's allowance for loan losses. In June 2016, the FASB issued an accounting standards update (ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments), pertaining to the measurement of credit losses on financial instruments ("CECL"). This update requires the measurement of all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions, such as Lakeland, and other organizations will now use forward-looking information to better inform their credit loss estimates. The new standard will be mandatory for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. This differs significantly from the "incurred loss" model required under current GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will significantly affect how we determine our allowance for loan losses and will require us to increase our allowance. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses.

On December 21, 2018, the banking agencies approved a final rule modifying their regulatory capital rules and providing an option to phase in over a period of three years the day-one regulatory capital effects of the CECL model. The final rule also revises the agencies' other rules to reflect the update to the accounting standards. The final rule became effective on April 1, 2019. In October 2019, four federal banking agencies issued a request for comment on a proposed interagency policy statement on the new CECL methodology. The policy statement proposes to harmonize the agencies' policies on allowances for credit losses with the FASB's new accounting standards. Specifically the statement (1) updates concepts and practices from prior policy statements issued in December 2006 and July 2001 and specifies which prior guidance documents are no longer relevant; (2) describes the appropriate CECL methodology, in light of Topic 326, for determining allowances for credit losses ("ACL") on financial assets measured at amortized cost, net investments in leases and certain off-balance sheet credit exposures; and (3) describes how to estimate an ACL for an impaired available-for-sale debt security in line with Topic 326. The proposed policy statement would be effective at the time that each institution adopts the new standards required by FASB. Management is still evaluating whether it will choose the three-year phase-in option.

Based on an analysis performed on our loan portfolio as of December 31, 2019, we expect an increase in our allowance for loan losses (and our reserves for unfunded commitments) ranging from 10% to 25%. The final number will be dependent on the refinement of our overall methodology primarily related to our qualitative adjustments and purchased credit deteriorated loans, and certain assumptions, which we are currently finalizing and expect to be completed in the coming weeks. The increase will result in a one-time cumulative effect adjustment to our allowance for loan losses, and a corresponding decrease to retained earnings as of the January 1, 2020 effective date. Any future quarterly changes to our allowance will depend on the current state of the economy, forecasted macroeconomic conditions and the composition of our loan portfolio at the time.

The concentration of our commercial real estate loan portfolio may subject us to increased regulatory analysis, or otherwise adversely affect our business and operating results.

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 49% of total risk-based capital at December 31, 2019. The Bank’s total reported CRE loans to total capital was 431% at December 31, 2019, while the Bank’s CRE portfolio has increased by 49% over the preceding 36 months. The growth rate of the preceding 36 months included the acquisition of Highlands State Bank.

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 exceed the levels set forth in the guidelines. Furthermore, the concentration of our commercial real estate portfolio could materially and adversely affect our business and operating results, including our overall profitability, and/or adversely impact the growth of our business, including the growth and composition of our overall loan portfolio.

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 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 (as amended or supplemented to date, including by the EGRRCPA (see "2018 Regulatory Reform," above)), 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 the markets we lend in, could have the following consequences, any of which could materially adversely affect our business:

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

Deterioration in the real estate market, particularly in New Jersey and the metropolitan New York area, could adversely affect our business. A decline in real estate values in New Jersey and the metropolitan New York area 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 losses.

Liquidity and Interest Rate Risks

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

Our ability to obtain funding from the Federal Home Loan Bank ("FHLB") 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.

Public funds deposits are an important source of funds for us and a reduced level of those deposits may hurt our profits.

Public funds deposits are a significant source of funds for our lending and investment activities. The Company's public funds deposits consist of deposits from local government entities, domiciled in the state of New Jersey, such as school districts, counties and other municipalities, and are collateralized by letters of credit from the FHLB and investment securities. Given our use of these high-average balance public funds deposits as a source of funds, our inability to retain such funds could adversely affect our liquidity. In addition, Governor Phil Murphy of New Jersey has proposed the creation of a state-owned bank which would accept public revenues to be invested in New Jersey. A bill was introduced in the New Jersey legislature in January 2018 that calls for the establishment of such a state-run bank. The legislation remains pending, and while no assurance can be provided that such a bank will be created, to the extent that a state-run bank is established and accepts public revenues, the amount of the Company's public funds deposits could be reduced, which could adversely affect our liquidity.

Further, our public funds deposits are primarily demand deposit accounts or short-term time deposits and are therefore more sensitive to interest rate risks. If we are forced to pay higher rates on our public funds accounts to retain those funds, or if we are unable to retain such funds and we are forced to resort to other sources of funds for our lending and investment activities, such as borrowings from the FHLB, the interest expense associated with these other funding sources may be higher than the rates we are currently paying on our public funds deposits, which would adversely affect our net income.

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

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

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

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

The transition from LIBOR as a reference rate may adversely impact our net income.

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR"). This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, it is not possible to predict, at this time, whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become an accepted alternative to LIBOR, or what the effect of any such changes in views or alternative may be on the markets for LIBOR-indexed financial instruments.

In particular, regulators, industry groups and certain committees (e.g., the Alternative Reference Rates Committee) have, among other things, published recommended fall-back language for LIBOR-linked financial instruments, identified recommended alternatives for certain LIBOR rates (e.g., the Secured Overnight Financing Rate as the recommended alternative to U.S. Dollar LIBOR), and proposed implementations of the recommended alternatives in floating rate instruments. At this time, it is not possible to predict whether these specific recommendations and proposals will be broadly accepted, whether they will continue to evolve, and what the effect of their implementation may be on the markets for floating-rate financial instruments.

We have a significant number of loans, derivative contracts, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

Declines in value may adversely impact our investment portfolio.

As of December 31, 2019, the Company had approximately $755.9 million and $124.0 million in available for sale and held to maturity investment securities, respectively. We may be required to record impairment charges on our investment securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio in future periods. If an impairment charge is significant enough it could affect the ability of Lakeland to upstream dividends to the Company, 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.

Information Technology or Cybersecurity Risks

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.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. Any failure, interruption or breach in security of these systems could result in significant disruption to our operations. Information security breaches and cybersecurity-related incidents may include, but are not limited to, attempts to access information, including customer and company information, malicious code, computer viruses and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service or other events. These types of threats may derive from human error, fraud or malice on the part of external or internal parties, or may result from accidental technological failure. Further, to access our products and services our customers may use computers and mobile devices that are beyond our security control systems. Our technologies, systems, networks and software, and those of other financial institutions have been, and are likely to continue to be, the target of cybersecurity threats and attacks, which may range from uncoordinated individual attempts to sophisticated and targeted measures directed at us. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased.

Our business requires the collection and retention of large volumes of customer data, including personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. The integrity and protection of that customer and company data is important to us. Our collection of such customer and company data is subject to extensive regulation and oversight.

Our customers and employees have been, and will continue to be, targeted by parties using fraudulent e-mails and other communications in attempts to misappropriate passwords, bank account information or other personal information or to introduce viruses or other malware through "Trojan horse" programs to our information systems and/or our customers' computers. Though we endeavor to mitigate these threats through product improvements, use of encryption and authentication technology and customer and employee education, such cyber attacks against us or our merchants and our third party service providers remain a serious issue. The pervasiveness of cybersecurity incidents in general and the risks of cyber crime are complex and continue to evolve. More generally, publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions.

Although we make significant efforts to maintain the security and integrity of our information systems and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber attacks and intrusions, or disruptions will occur in the future, and because the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is virtually impossible for us to entirely mitigate this risk. While we maintain specific "cyber" insurance coverage, which would apply in the event of various breach scenarios, the amount of coverage may not be adequate in any particular case. Furthermore, because cyber threat scenarios are inherently difficult to predict and can take many forms, some breaches may not be covered under our cyber insurance coverage. A security breach or other significant disruption of our information systems or those related to our customers, merchants and our third party vendors, including as a result of cyber attacks, could (i) disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our customers; (ii) result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information of ours or our customers; (iii) result in a violation of applicable privacy, data breach and other laws, subjecting us to additional regulatory scrutiny and expose us to civil litigation, governmental fines and possible financial liability; (iv) require significant management attention and resources to remedy the damages that result; or (v) harm our reputation or cause a decrease in the number of customers that choose to do business with us. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of 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 Company embarked on a digital strategy initiative in 2019, which impacts all operational areas of the Bank. There are no guarantees that enhancing the Company's digital capabilities will expand Lakeland's market presence as a community bank or result in an ability to better compete long-term in a fast-paced digital marketplace. In addition, the cost of implementation and the anticipated increase in revenue may not occur as expected.

Our operations rely on certain third party vendors.

We rely on certain external vendors to provide products and services necessary to maintain our day-to-day operations. These third party vendors are sources of operational and informational security risk to us, including risks associated with operational errors, information system interruptions or breaches and unauthorized disclosures of sensitive or confidential client or customer information. If these vendors encounter any of these issues, or if we have difficulty communicating with them, we could be exposed to disruption of operations, loss of service or connectivity to customers, reputational damage, and litigation risk that could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

In addition, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. While we have selected these external vendors carefully, we do not control their actions. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements, because of changes in the vendor's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which could have a material adverse effect on our business and, in turn, our financial condition and results of operations. Replacing these external vendors could also entail significant delay and expense.

Legal and Regulatory Risks

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.

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 were subject to regulatory rule-making and implementation, the full effects of which are not yet fully 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 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. More stringent consumer protection regulations could materially and adversely affect our profitability.

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," banks and bank holding companies are required to maintain a capital conservation buffer on top of minimum risk-weighted asset ratios. The capital conservation buffer was fully phased in on January 1, 2019. In September 2019, the regulatory agencies adopted a final rule, effective January 1, 2020, creating a Community Bank Leverage Ratio framework for institutions with total consolidated assets of less than $10 billion and that meet other qualifying criteria. The Community Bank Leverage Ratio Framework provides for a simpler measure of capital adequacy for qualifying institutions. Qualifying institutions that elect to use the Community Bank Leverage Ratio framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the regulatory agencies' capital rules and to have met the well-capitalized ratio requirements. Management is still reviewing the Community Bank Leverage Ratio framework, but does not expect that Lakeland Bancorp or Lakeland Bank will elect to use the framework.

Banking institutions which do not maintain capital in excess of the Basel Rule standards including 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.

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 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.

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 Bank and its subsidiaries, and we do not have significant operations of our own. We currently depend on Lakeland Bank's cash and liquidity to pay our operating expenses and dividends to shareholders. The availability of dividends from Lakeland Bank is limited by various statutes and regulations. The inability of the Company to receive dividends from Lakeland Bank 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," as a general matter, banks and bank holding companies are required to maintain a capital conservation buffer on top of minimum risk-weighted asset ratios. 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 Lakeland Bank fails to maintain the applicable minimum capital ratios and the capital conservation buffer, distributions to Lakeland Bancorp may be prohibited or limited.

Strategic and External Risks

The effect of the Tax Cuts and Jobs Act and future tax reform is uncertain and may adversely affect our business.

It is now more than two years since the current Presidential administration and U.S. Congress passed significant reform of the Internal Revenue Code, known as the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). As of year-end 2018, we had completed the process of determining the accounting under ASC Topic 740, Income Taxes, for the income tax effects of the Tax Act, as discussed in the related notes to the consolidated financial statements. The Company has therefore disclosed the impact that the Tax Act had on its financial position and the results of operations. However, additional technical corrections or other forthcoming guidance could change how we interpret provisions of the Tax Act, which may impact our effective tax rate and could affect our deferred tax assets, tax positions and/or our tax liabilities.

While the decline in the federal corporate tax rate from 35% to 21% lowered the Company's income tax expense as a percent of its taxable income in 2019 and 2018, other provisions of the Tax Act or future tax reform could negatively impact certain balance sheet and tax positions taken by the Company. The Tax Act imposed higher limitations on the deductibility of interest and property tax expenses, which may have adversely impacted, and may continue to adversely impact, the property values of real estate used to secure loans and may have created, and may continue to create, an additional tax burden for many borrowers, particularly in high tax jurisdictions such as the State of New Jersey where the Company operates. These and other federal and state tax changes could significantly impact the financial health of our customers, potentially resulting, in among other things, an inability to repay loans or maintain deposits at the Bank. Any negative financial impact to our customers resulting from tax reform could adversely impact our financial condition and earnings.

The ultimate impact of any tax reform on our business, customers and shareholders is uncertain and could be adverse.

Recent New Jersey legislative changes may increase tax expense.

Legislation in New Jersey that was enacted in July 2018 increased our state income tax liability and could increase our overall tax expense. The legislation imposes a temporary surtax on corporations earning New Jersey allocated income in excess of $1.0 million of 2.5% for tax years beginning on or after January 1, 2018 through December 31, 2019, and of 1.5% for tax years beginning on or after January 1, 2020 through December 31, 2021. The new legislation also requires combined filing for members of an affiliated group for tax years ending on or after July 31, 2019, and limits the deductibility of dividends received. These changes are not temporary. Regulations implementing the legislative changes have not yet been issued, so we cannot yet fully evaluate the impact of the legislation on our overall tax expense. However, the new legislation may cause us to lose the benefit of certain of our tax management strategies and may cause our total tax expense to increase.

Severe weather, acts of terrorism and other external events could impact our ability to conduct business.

Weather-related events have adversely impacted our market area in recent years, especially areas located near coastal waters and flood prone areas. Such events that may cause significant flooding and other storm-related damage may become more common events in the future. Financial institutions have been, and continue to be, targets of terrorist threats aimed at compromising operating and communication systems and the metropolitan New York area, including New Jersey, remain central targets for potential acts of terrorism. Such events could cause significant damage, impact the stability of our facilities and result in additional expenses, impair the ability of our borrowers to repay their loans, reduce the value of collateral securing repayment of our loans, and result in the loss of revenue. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

We face intense competition from other financial services and financial services technology companies, and competitive pressures could adversely affect our business or financial performance.

The Company faces intense competition in all of its markets and geographic regions. The Company expects competitive pressures to intensify in the future, especially in light of legislative and regulatory initiatives arising out of the recent global economic crisis, technological innovations that alter the barriers to entry, current economic and market conditions, and government monetary and fiscal policies. Competition with financial services technology companies, or technology companies partnering with financial services companies, may be particularly intense, due to, among other things, differing regulatory environments. Competitive pressures may drive the Company to take actions that the Company might otherwise eschew, such as lowering the interest rates or fees on loans or raising the interest rates on deposits in order to keep or attract high-quality customers. These pressures also may accelerate actions that the Company might otherwise elect to defer, such as substantial investments in technology or infrastructure. Whatever the reason, actions that the Company takes in response to competition may adversely affect its results of operations and financial condition. These consequences could be exacerbated if the Company is not successful in introducing new products and other services, achieving market acceptance of its products and other services, developing and maintaining a strong customer base, or prudently managing expenses.

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.

Operational Risks

The Company may incur impairment to goodwill.

We are required to test our goodwill at least annually. Our valuation methodology for assessing impairment requires management to consider a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similarly situated insured depository institutions. 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.

We could be adversely affected by failure in our internal controls.

We continue to devote a significant amount of effort, time and resources to continually strengthen our controls and ensure compliance with complex accounting standards and banking regulations. A failure in our internal controls could have a significant negative impact not only on our earnings, but also on the perception that customers, regulators and investors may have of us.

Our risk management strategies may not be fully effective in mitigating our risk exposures in all market environments or against all types of risk.

We have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our risk management strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. As our products and services change and grow and the markets in which we operate evolve, our risk management strategies may not always adapt to those changes. Some of our methods of managing risk are based upon our use of observed historical market behavior and management's judgment. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Management of market, credit, liquidity, operational, legal, regulatory and compliance risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events and these policies and procedures may not be fully effective. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the timing of such outcomes. Any of these circumstances could have an adverse effect on our business, financial condition and results of operations.

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 accuracy of our financial statements and related disclosures could be affected if the judgments, assumptions or estimates used in our critical accounting policies are inaccurate.

The preparation of financial statements and related disclosure in conformity with GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are included in Item 7 of this report captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations", describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that we consider "critical" because they require judgments, assumptions and estimates that materially affect our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions and estimates in our critical accounting policies, those events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

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

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

ITEM 1B - Unresolved Staff Comments.

Not Applicable.

ITEM 2 – Properties.

Lakeland currently operates 52 branch offices located throughout Bergen, Essex, Morris, Ocean, Passaic, Somerset, Sussex, and Union counties in New Jersey and in Highland Mills, New York; six New Jersey regional commercial lending centers in Bernardsville, Iselin, Jackson, Montville, Teaneck and Waldwick; and one New York commercial lending center to serve the Hudson Valley region. 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 $47.6 million at December 31, 2019. As of December 31, 2019, 28 of the Company's facilities were owned and 35 were leased for various terms.

ITEM 3 - Legal Proceedings.

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

ITEM 3A - Information about our Executive Officers.

The following table sets forth the name and age of each current 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 62	2008	President and CEO of the Company and the Bank (April 2008 - Present); President and Chief Credit Officer (May 2007 - April 2008) and Executive Vice President and Senior Commercial Banking Officer (February 2006 - May 2007), TD Banknorth, N.A.'s Mid-Atlantic Division.
Thomas F. Splaine, Jr. Age 54	2016	Executive Vice President and Chief Financial Officer of the Company and the Bank (March 2017 - Present); First Senior Vice President and Chief Accounting Officer of the Company and the Bank (May 2016 - March 2017); Senior Vice President, Financial Planning and Analysis and Investor Relations of Investors Bancorp, Inc. (January 2015 - December 2015); Senior Vice President and Chief Financial Officer of Investors Bancorp, Inc. (2008 - 2015).
Ronald E. Schwarz Age 65	2009	Senior Executive Vice President and Chief Operating Officer of the Company and the Bank (January 2017 - Present); Senior Executive Vice President and Chief Revenue Officer of the Company and the Bank (January 2016 - January 2017); Executive Vice President and Chief Retail Officer of the Company and the Bank (June 2009 - December 2015); Executive Vice President and Market Executive of Sovereign Bank (June 2006 - June 2009).
Paul Ho Sing Loy Age 59	2019	Executive Vice President and Chief Information Officer of the Company (January 2019 - Present); Executive Vice President and Chief Information Officer of the Bank (May 2017 - Present); Senior Vice President and Director of Business Solutions, Associated Bank (2012 - 2017); Delivery Manager for Systems in Motion, a technology outsourcing firm (2011 - 2012); Principal Consultant for Jordan Jaden Partners, a technology and management consulting firm (2003 - 2011); Senior IT positions at Wells Fargo, Bank of America and Citibank (1983 - 2003).
Ellen Lalwani Age 56	2018	Executive Vice President and Chief Banking Officer of the Company and the Bank (January 2020); Executive Vice President and Chief Retail Officer of the Company and the Bank (January 2018 - January 2020); Senior Vice President and Director of Retail Sales of the Bank (August 2008 - January 2018).
Timothy J. Matteson, Esq. Age 50	2008	Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary of the Company (January 2017 - Present); Executive Vice President, General Counsel and Corporate Secretary of the Company (March 2012 - January 2017); 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).
James M. Nigro Age 52	2016	Executive Vice President, Chief Risk Officer of the Company (March 2016 - Present); Senior Vice President, Credit Risk Manager of The Provident Bank (December 2013 - March 2016); Senior Vice-President, Commercial Lending of Lakeland Bank (May 2013 - December 2013); Executive Vice President, Chief Lending Officer of Somerset Hills Bank (July 2001 - May 2013).
John F. Rath, III Age 61	2018	Executive Vice President and Chief Lending Officer of the Company and the Bank (January 2018 - Present); First Senior Vice-President, Lending Group Manager of the Company (January 2016 - January 2018); Senior Vice-President, Commercial Lending of the Company (March 2015- January 2016); Senior Vice-President, Lending Group Manager of TD Bank (August 1998 - March 2015).

ITEM 4 - Mine Safety Disclosures.

Not applicable.

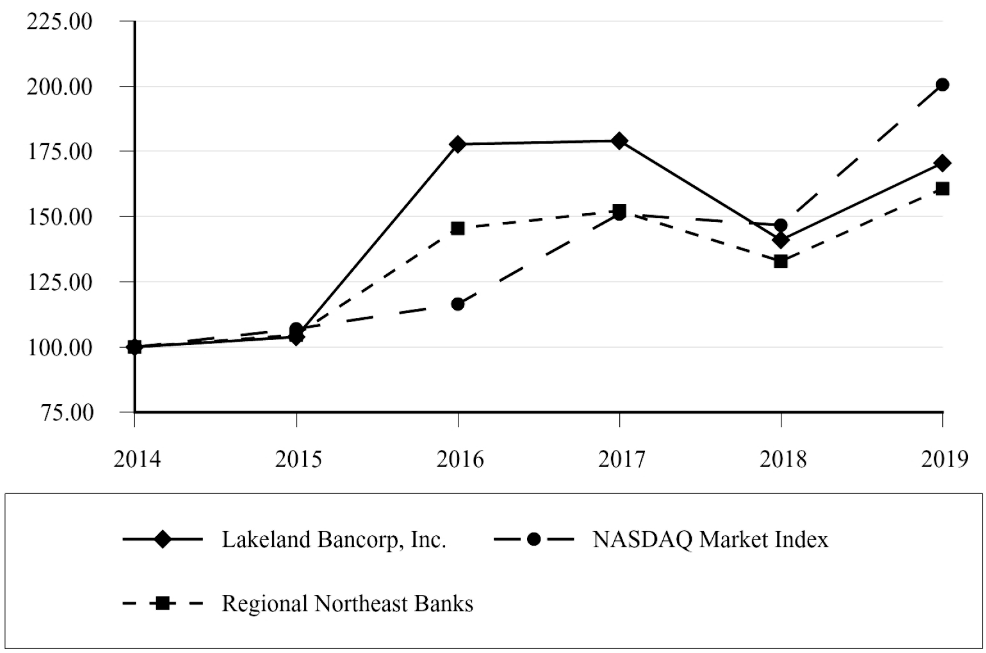
PART II

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, 2019, there were approximately 3,058 shareholders of record of the common stock.

The following chart compares the Company's cumulative total shareholder return (on a dividend reinvested basis) over the past five years commencing December 31, 2014 and ending December 31, 2019 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.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Assumes Initial Investment of $100
December 2019



Company/Market/Peer Group	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Lakeland Bancorp, Inc.	$ 100.00	$ 103.90	$ 177.66	$ 178.99	$ 141.01	$ 170.54
NASDAQ Market Index	100.00	106.96	116.45	150.96	146.67	200.50
Regional Northeast Banks	100.00	104.61	145.41	152.23	132.88	160.72

The following table presents information regarding shares of our common stock repurchased during the fourth quarter of 2019.

Period	Total Number of Shares (or Units) Purchased (1)	Weighted Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2019	—	$ —	—	2,524,458
November 1 to November 30, 2019	—	—	—	2,524,458
December 1 to December 31, 2019	—	—	—	2,524,458

(1) On October 24, 2019, the Company announced that its Board of Directors authorized a new share repurchase program. Under the repurchase program, the Company may repurchase up to 2,524,458 shares of its common stock, or approximately 5% of its outstanding shares of common stock at September 30, 2019. Repurchases may be made from time to time through a combination of open market and privately negotiated repurchases. The specific timing, price and quantity of repurchases will be at the discretion of the Company and will depend on a variety of factors, including general market conditions, the trading price of the common stock, legal and contractual requirements and the Company's financial performance. No shares were purchased by the Company pursuant to such share repurchase program or otherwise.

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 selected financial data set forth below has been derived from the Company's audited consolidated financial statements.

	At or for the Years Ended December 31,				
(in thousands, except per share data)	2019	2018	2017	2016	2015
Income Statement					
Interest income	$ 256,487	$ 213,121	$ 190,204	$ 163,296	$ 127,514
Interest expense	60,453	39,562	24,966	17,647	10,874
Net interest income	196,034	173,559	165,238	145,649	116,640
Provision for loan losses	2,130	4,413	6,090	4,223	1,942
Noninterest income excluding gains on investment securities and gain on debt extinguishment	26,300	22,893	22,911	20,960	19,090
Gains on sales of investment securities	—	—	2,524	370	241
Gain (loss) on equity securities	496	(583)	—	—	—
Gain on early debt extinguishment	—	—	—	—	1,830
Merger related expenses	3,178	464	—	4,103	1,152
Long-term debt prepayment fee	—	—	2,828	—	2,407
Noninterest expenses	123,578	110,703	101,706	95,814	83,652
Income before income taxes	93,944	80,289	80,049	62,839	48,648
Income tax provision	23,272	16,888	27,469	21,321	16,167
Net income	$ 70,672	$ 63,401	$ 52,580	$ 41,518	$ 32,481
Per-Share Data					
Weighted average shares outstanding:					
Basic	50,477	47,578	47,438	42,912	37,844
Diluted	50,642	47,766	47,674	43,114	37,993
Earnings per share:					
Basic	$ 1.39	$ 1.32	$ 1.10	$ 0.96	$ 0.85
Diluted	$ 1.38	$ 1.32	$ 1.09	$ 0.95	$ 0.85
Cash dividend per common share	$ 0.49	$ 0.45	$ 0.40	$ 0.37	$ 0.33
Book value per common share	$ 14.36	$ 13.14	$ 12.31	$ 11.65	$ 10.57
Tangible book value per common share (1)	$ 11.18	$ 10.22	$ 9.38	$ 8.70	$ 7.62
Balance Sheet					
Investment securities available for sale and other (4)	$ 794,878	$ 667,840	$ 658,711	$ 621,803	$ 456,436
Investment securities held to maturity	123,975	153,646	139,685	147,614	116,740
Loans, net of deferred fees	5,137,823	4,456,733	4,152,720	3,870,598	2,965,200
Goodwill and other identifiable intangible assets	160,591	138,201	138,795	139,091	111,519
Total assets	6,711,236	5,806,093	5,405,639	5,093,131	3,869,550
Total deposits	5,293,779	4,620,670	4,368,748	4,092,835	2,995,572
Total core deposits (2)	4,422,975	3,863,632	3,631,320	3,547,927	2,652,251
Term borrowings	284,036	286,145	296,913	365,650	303,143
Total stockholders' equity	725,263	623,739	583,122	550,044	400,516
Performance Ratios					
Return on average assets	1.12%	1.15%	1.00%	0.90%	0.89%
Return on average tangible common equity (1)	13.16%	13.78%	12.24%	12.19%	11.58%
Return on average equity	10.14%	10.59%	9.25%	8.75%	8.28%
Efficiency ratio (1)(3)	54.83%	56.09%	53.40%	56.74%	60.94%
Net interest margin (tax equivalent basis)	3.33%	3.36%	3.38%	3.41%	3.47%
Loans to deposits	97.05%	96.45%	95.06%	94.57%	98.99%
Capital Ratios					
Common equity to asset ratio	10.81%	10.74%	10.79%	10.80%	10.35%
Tangible common equity to tangible assets (1)	8.62%	8.57%	8.44%	8.30%	7.69%
Tier 1 leverage ratio	9.41%	9.39%	9.12%	9.07%	8.70%
Tier 1 risk-based capital ratio	11.02%	11.27%	10.87%	10.85%	10.53%
Total risk-based capital ratio	13.40%	13.71%	13.40%	13.48%	11.61%
CET1 ratio	10.46%	10.62%	10.18%	10.11%	9.54%

1. 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.
2. Core deposits represent all deposits with the exception of time deposits.
3. Ratio represents noninterest expense, excluding long-term debt prepayment fee, merger related expenses 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 noninterest income.
4. Includes investment in equity securities, Federal Home Loan Bank and other membership stock, at cost.

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 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 statements. The 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; 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; successful implementation, deployment and upgrades of new and existing technology, systems, services and products; and customers' acceptance of Lakeland's products and services.

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 52 banking offices located in Northern and Central New Jersey and Highland Mills, New York. 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 wealth management services.

Lakeland's growth has come from a combination of organic growth and acquisitions. In addition to organic growth, through December 31, 2019, the Company has acquired eight community banks with an aggregate asset total of approximately $2.28 billion at the date of the respective acquisitions, including the recent acquisition of Highlands Bancorp. On January 4, 2019, the Company completed its acquisition of Highlands Bancorp, Inc., with four branches and assets totaling approximately $496.5 million. All acquired banks have been merged into Lakeland and their holding companies, if applicable, have been merged into the Company. The Company's strategy is to continue growing 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. In 2019, the Company embarked on a digital strategy initiative, impacting all operational areas of Lakeland. Enhancing the Company's digital capabilities will allow Lakeland to expand its market presence as a community bank, as well as compete long-term in a fast-paced digital marketplace.

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" in the discussion below.

The Company generates noninterest 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 securities sales, fees from wealth management services and investment product sales, income from the origination and sale of residential mortgages and SBA loans and other fees. The Company's operating expenses consist primarily of compensation and benefits expense, occupancy and equipment expense, data processing expense, ATM and debit card expense, 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, ongoing service contract expense, marketing expenses and other expenses. The Company also controls its expenses by leveraging its technology investments that maximize the efficient delivery of products and services to its customers, which allows it further to evaluate its infrastructure. Through this process, Lakeland has consolidated and closed branches in markets where it may have more branches than necessary, including three branches in each of 2018 and 2019 (including two of the four acquired Highlands branches), permitting it to expand and open two new branches in areas of opportunity. One branch was opened during 2017 located in Highland Mills, New York, to support the Hudson Valley Region and another during 2019 in Clifton, New Jersey, to support the Paterson and Passaic markets.

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. The allowance for loan loss is a significant estimate implicit in these financial statements and is described below. 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 losses. The allowance for loan losses is the estimated amount considered necessary to cover probable and reasonably estimable incurred losses inherent in the loan portfolio at the balance sheet date. In determining the allowance, we make significant estimates and judgments, and, therefore, have identified the allowance as a critical accounting policy. The allowance is established through a provision for loan losses charged against income. Loan principal considered to be uncollectible by management is charged against the allowance.

The allowance for loan losses has been determined in accordance with U.S. GAAP. We are responsible for the timely and periodic determination of the amount of the allowance required. We believe that our allowance is adequate to cover identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

The determination of the adequacy of the allowance for loan losses and the periodic provisioning for estimated losses included in the consolidated financial statements is the responsibility of management and the Board of Directors. Management performs a formal quarterly evaluation of the allowance for loan losses. This quarterly process is performed by the credit administration department and approved by the Chief Credit Officer. All supporting documentation with regard to the evaluation process is maintained by the credit administration department. Each quarter, the evaluation along with the supporting documentation is reviewed by the finance department before approval by the Chief Credit Officer. The allowance evaluation is then presented to an Allowance for Loan Losses committee, which gives final approval to the allowance evaluation before being presented to the Board of Directors for their approval.

The methodology employed for assessing the adequacy of the allowance consists of the following criteria:

- The establishment of specific reserve amounts for impaired loans, including purchase-credit impaired loans.
- The establishment of reserves for pools of homogeneous loans not subject to specific review, including impaired loans under $500,000, equipment finance loans, 1 - 4 family residential mortgages, and consumer loans.

The Company defines impaired loans as all non-accrual loans with recorded investments of $500,000 or greater. Impaired loans also include all loans modified as troubled debt restructurings. Loans are considered impaired when, based on current information and events, it is probable that Lakeland will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments.

Impairment is measured based on the present value of expected cash flows discounted at the loan's effective interest rate, or as a practical expedient, Lakeland may measure impairment based on a loan's observable market price, or the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. Regardless of the measurement method, Lakeland measures impairment based on the fair value of the collateral when it is determined that foreclosure is probable. Most of Lakeland's impaired loans are collateral-dependent. Shortfalls in collateral or cash flows are charged-off or specifically reserved for in the period the shortfall is identified. Charge-offs are recommended by the Chief Credit Officer and approved by the Company's Board of Directors.

Lakeland groups impaired commercial loans under $500,000 into homogeneous pools and collectively evaluates them. Interest received on impaired loans may be recorded as interest income. However, if management is not reasonably certain that an impaired loan 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.

The establishment of reserve amounts for pools of homogeneous loans are based upon the determination of historical loss rates, which are adjusted to reflect current conditions through the use of qualitative factors. The qualitative factors considered by the Company include an evaluation of the results of the Company's independent loan review function, the Company's reporting capabilities, the adequacy and expertise of Lakeland's lending staff, underwriting policies, loss histories, trends in the portfolio, delinquency trends, economic and business conditions and capitalization rates. Since many of Lakeland's loans depend on the sufficiency of collateral as a secondary source of repayment, any adverse trends in the real estate market could affect the underlying values available to protect Lakeland from losses.

Additionally, management determines the loss emergence periods for each loan segment, which are used to define loss migration periods and establish appropriate ranges for qualitative adjustments for each loan segment. 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 partial or full loan charge-off) and is determined based upon a study of our past loss experience by loan segment. All of the factors considered in the analysis of the adequacy of the allowance for loan losses may be subject to change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods.

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, 2019 represented a year of continued growth for the Company. As discussed in this management's discussion and analysis:

- Net income was $70.7 million, or $1.38 per diluted share, for the year ended December 31, 2019 compared to net income of $63.4 million, or $1.32 per diluted share, for 2018.
- Excluding merger-related expenses pertaining to the Company's January 2019 acquisition of Highlands Bancorp, Inc. ("Highlands") of $2.4 million, tax-effected, net income for the year ended December 31, 2019 was $73.0 million, or $1.43 per diluted share.
- In 2019, return on average assets was 1.12%, return on average common equity was 10.14% and return on average tangible common equity was 13.16%. Excluding merger related expenses these ratios in 2019 were 1.16%, 10.48%, and 13.60%, respectively. This compared to 2018 ratios of return on average assets of 1.15%, return on average common equity of 10.59% and return on average tangible common equity of 13.78%.
- Total loans increased by $681.1 million, or 15%, from December 31, 2018 to December 31, 2019, including $425.0 million from Highlands.
- Total deposits increased $673.1 million, or 15%, from December 31, 2018 to December 31, 2019, including $409.6 million from Highlands.
- The Company's net interest margin was 3.33% for 2019 compared to 3.36% for 2018.
- On January 4, 2019, the Company completed its acquisition of Highlands. This acquisition added $496.5 million in total assets. For more information, please see Note 2 in Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Net Income

Net income for 2019 was $70.7 million, or $1.38 per diluted share, compared to net income of $63.4 million, or $1.32 per diluted share, in 2018. The major contributing factor to the increase in net income was an increase in net interest income of $22.5 million from 2018 to 2019 due primarily to an increase in average interest-earning assets resulting from the Highlands merger and organic growth. An increase in yield on interest-earning assets also contributed to the increase in net interest income, partially offset by an increase in the cost of interest-bearing liabilities.

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 on a tax equivalent basis for 2019 was $196.4 million, compared to $174.0 million in 2018, resulting primarily from growth in average earning assets of $713.5 million. The net interest margin decreased from 3.36% in 2018 to 3.33% in 2019 primarily as a result of a 34 basis point increase in the cost of interest-bearing liabilities. The increase in the cost of interest-bearing liabilities is primarily attributable to the rise in short-term market interest rates and increasing competition for deposits. The effect of the increase in the cost of funds on net interest income was partially mitigated by an increase in the yield on interest-earning assets of 24 basis points and an increase in interest income earned on free funds (interest-earning assets funded by noninterest-bearing liabilities) resulting from an increase in average noninterest-bearing deposits of $108.4 million. The components of net interest income is 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 for 2019 and 2018 is presented on a tax equivalent basis assuming a 21% tax rate, while rates for 2017 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.

	2019 vs. 2018			2018 vs. 2017		
	Increase (Decrease) Due to Change in:			Increase (Decrease) Due to Change in:		
(in thousands)	Volume	Rate	Total Change	Volume	Rate	Total Change
INTEREST INCOME						
Loans	$ 30,622	$ 9,770	$ 40,392	$ 11,420	$ 9,381	$ 20,801
Taxable investment securities and other	1,488	1,524	3,012	655	1,068	1,723
Tax-exempt investment securities	(277)	25	(252)	(657)	(249)	(906)
Federal funds sold	114	47	161	(85)	764	679
Total interest income	31,947	11,366	43,313	11,333	10,964	22,297
INTEREST EXPENSE						
Savings deposits	7	35	42	2	15	17
Interest-bearing transaction accounts	3,191	9,255	12,446	279	8,246	8,525
Time deposits	2,396	3,744	6,140	1,782	3,696	5,478
Borrowings	1,233	1,030	2,263	(377)	953	576
Total interest expense	6,827	14,064	20,891	1,686	12,910	14,596
NET INTEREST INCOME	$ 25,120	$ (2,698)	$ 22,422	$ 9,647	$ (1,946)	$ 7,701

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 for 2019 and 2018 are computed on a tax equivalent basis assuming a 21% tax rate, while rates for 2017 is computed on a tax equivalent basis assuming a 35% tax rate.

	2019			2018			2017		
(dollars in thousands)	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
ASSETS									
Interest-earning assets:									
Loans (1)	$4,938,298	$ 233,535	4.73%	$4,283,401	$ 193,143	4.51%	$4,024,257	$ 172,342	4.28%
Taxable investment securities and other	799,103	19,722	2.47%	736,241	16,710	2.27%	706,167	14,987	2.12%
Tax-exempt securities	70,271	1,911	2.72%	80,456	2,163	2.69%	104,267	3,069	2.94%
Federal funds sold (2)	87,997	1,720	1.95%	82,096	1,559	1.90%	92,295	880	0.95%
Total interest-earning assets	5,895,669	256,888	4.36%	5,182,194	213,575	4.12%	4,926,986	191,278	3.88%
Noninterest-earning assets:									
Allowance for loan losses	(39,840)			(36,804)			(33,148)		
Other assets	466,825			383,524			373,723		
TOTAL ASSETS	$6,322,654			$5,528,914			$5,267,561		
LIABILITIES AND STOCKHOLDERS EQUITY									
Interest-bearing liabilities:									
Savings accounts	$ 500,650	$ 335	0.07%	$ 489,742	$ 293	0.06%	$ 486,821	$ 276	0.06%
Interest-bearing transaction accounts	2,653,404	31,157	1.17%	2,301,065	18,711	0.81%	2,241,259	10,186	0.45%
Time deposits	922,412	17,756	1.92%	778,180	11,616	1.49%	623,257	6,138	0.98%
Borrowings	385,365	11,205	2.87%	340,414	8,942	2.63%	357,978	8,366	2.34%
Total interest-bearing liabilities	4,461,831	60,453	1.35%	3,909,401	39,562	1.01%	3,709,315	24,966	0.67%
Noninterest-bearing liabilities:									
Demand deposits	1,092,827			984,445			959,298		
Other liabilities	70,959			36,541			30,268		
Stockholders' equity	697,037			598,527			568,680		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,322,654			$5,528,914			$5,267,561		
Net interest income/spread		196,435	3.00%		174,013	3.11%		166,312	3.21%
Tax equivalent basis adjustment		401			454			1,074	
NET INTEREST INCOME		$ 196,034			$ 173,559			$ 165,238	
Net interest margin (3)			3.33%			3.36%			3.38%

(1) Includes non-accrual loans, loans held for sale and deferred loan fees.
(2) Includes interest-bearing cash accounts.
(3) Net interest income on a tax equivalent basis divided by interest-earning assets.

Interest income on a tax equivalent basis increased from $213.6 million in 2018 to $256.9 million in 2019, an increase of $43.3 million, or 20%. The increase in interest income resulted from higher volumes of interest earning assets primarily due to the Highlands acquisition and organic growth. Also impacting the increase in interest income was an increase in the loan portfolio yield primarily resulting from the higher interest rate environment and accretion income on loans resulting from the Highlands acquisition. The average balance of loans increased $654.9 million compared to 2018, while the yield on average loans of 4.73% in 2019 was 22 basis points greater than 2018. The yield on average taxable investment securities increased 20 basis points, while the yield on tax-exempt investment securities increased three basis points compared to 2018.

Interest income on a tax equivalent basis increased from $191.3 million in 2017 to $213.6 million in 2018, an increase of $22.3 million, or 12%. The increase in interest income was primarily a result of organic growth in loans as well as an increase in interest rates caused by the increases in the federal funds rate and prime rate during 2018. The average balance of loans increased $259.1 million compared to 2017, while the yield on average loans of 4.51% in 2018 was 23 basis points greater than 2017. The yield on average taxable investment securities increased 15 basis points, while the yield on tax-exempt investment securities decreased 25 basis points compared to 2017. The decrease in yield on average tax-exempt investment securities was due primarily to a reduction in tax equivalent income resulting from the Tax Cuts and Jobs Act of 2017.

Total interest expense increased from $39.6 million in 2018 to $60.5 million in 2019, an increase of $20.9 million. Total average interest-bearing liabilities increased $552.4 million as a result of organic growth and the Highlands acquisition. The cost of average interest-bearing liabilities increased from 1.01% in 2018 to 1.35% in 2019 largely driven by competitive pressures and higher market interest rates. The cost of interest-bearing transaction accounts and time deposits increased by 36 basis points and 43 basis points, respectively, while the cost of borrowings increased 24 basis points compared to 2018. The increase in the cost of interest-bearing transaction accounts and time deposits compared to 2018 was a result of the higher rate environment as well as the impact of money market deposit account promotions and higher rates offered on certificates of deposit.

Total interest expense increased from $25.0 million in 2017 to $39.6 million in 2018, an increase of $14.6 million, or 58%, primarily due to the increasing interest rate environment. The cost of average interest-bearing liabilities increased from 0.67% in 2017 to 1.01% in 2018 primarily due to an increasingly competitive market for deposits resulting from a higher interest rate environment as well as an increase in the cost of borrowing. The cost of interest-bearing transaction accounts and time deposits increased by 36 basis points and 51 basis points, respectively, while the cost of borrowings increased 29 basis points compared to 2017. The increase in the cost of interest-bearing transaction accounts was due primarily to increases in yields on public funds deposits as many of the accounts are indexed to the Fed Funds rate. A money market deposit account promotion also contributed to the increase in the cost of interest-bearing transaction accounts. Average time deposits increased from $623.3 million in 2017 to $778.2 million in 2018 primarily as a result of the Company's certificate of deposit promotion beginning in the last half of 2017.

Provision for Loan Losses

In determining the provision for loan 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 net charge-offs and the results of independent third party loan reviews.

The provision for loan losses decreased from $4.4 million in 2018 to $2.1 million in 2019. The decreased provision during 2019 was primarily a result of net recoveries in 2019 compared to net charge-offs in 2018. For more information, please see the discussion under "Risk Elements" below.

The provision for loan and lease losses decreased from $6.1 million in 2017 to $4.4 million in 2018. The decreased provision during 2018 was primarily a result of continued low charge-offs and a reduction in non-accrual loans.

Noninterest Income

Noninterest income of $26.8 million in 2019 increased by $4.5 million compared to 2018. Included in noninterest income in 2019, was a $496,000 gain on equity securities compared to losses of $583,000 in 2018. In addition, swap income of $3.2 million increased $1.2 million compared to 2018 due primarily to increase in demand resulting from changes in the yield curve. Commissions and fees increased $688,000 compared to 2018 due primarily to an increase in investment services income and commercial loan fees, while service charges on deposit accounts increased $621,000 due primarily to deposit growth. Income on bank owned life insurance at $2.7 million decreased $516,000 compared to 2018 due primarily to higher insurance proceeds received in 2018. Other income of $1.2 million in 2019 was $1.0 million higher than 2018 due primarily to $1.2 million in gains during 2019 resulting from payoffs of purchased credit impaired loans. Noninterest income represented 12% of total revenue in 2019. Total revenue is defined as net interest income plus noninterest income.

Noninterest income of $22.3 million in 2018 decreased by $3.1 million compared to 2017. Included in noninterest income in 2018, was a $583,000 loss on equity securities compared to $2.5 million in gains on sales of investment securities in 2017. In 2018 there was a $561,000 loss on sales of premises and equipment compared to $838,000 in gains in 2017. Noninterest income in 2017 also included a $342,000 gain on the payoff of an acquired loan. Noninterest income for 2018 had increases in commissions and fees of $684,000 and an increase in income on bank owned life insurance of $902,000, which included death benefit income. Gains on sale of loans decreased $507,000 in 2018 compared to 2017, while swap income increased from $982,000 in 2017 to $2.0 million in 2018. Noninterest income represented 11% of total revenue in 2018.

Noninterest Expense

Noninterest expense in 2019 totaled $126.8 million, which was $15.6 million more than the $111.2 million reported for 2018 and includes $3.2 million in expenses related to the acquisition of Highlands compared to $464,000 in 2018. Salaries and employee benefits increased $8.7 million, from the same period last year, as a result of additions to staff from the merger, additions to support continued growth, normal merit increases and increases in benefits costs. Net occupancy expense increased $874,000 due primarily to a branch write-down and the addition of the Highlands branches. FDIC insurance expense decreased $1.2 million in 2019, compared to 2018 due to assessment credits from the FDIC, resulting from the insurance fund reserve ratio exceeding the required level. Marketing expense increased $508,000 primarily due to advertising in new locations as a result of the merger with Highlands, while data processing expense increased $1.3 million compared to the prior year period due primarily to the continued expansion and improvement of the Company's digital infrastructure as well as increases related to the Highlands merger. Other expenses increased $1.3 million due primarily to increased consulting expense and donations.

Noninterest expense totaling $111.2 million increased $6.6 million in 2018 from 2017. During 2017, the Company incurred $2.8 million in long-term debt prepayment penalties, and in 2018, the Company incurred $464,000 in merger related expenses. Excluding the 2017 long-term debt prepayment fees and 2018 merger expenses, the resulting $9.0 million net increase was primarily due to a $7.4 million increase in salary and employee benefit costs resulting from additions to our staff to support continued growth, as well as normal merit increases and higher benefit costs. The Company also recorded a life insurance payout related to a BOLI death benefit received in the third quarter of 2018. Data processing expense was $3.6 million, an increase of $1.6 million resulting from the Company's expansion and improvement of its digital infrastructure. Stationery, supplies and postage and marketing expense decreased $172,000 and $238,000, respectively, while telecommunication expense and ATM and debit card expense increased $162,000 and $144,000, respectively.

The efficiency ratio, a non-GAAP measure, expresses the relationship between noninterest expense (excluding long-term debt prepayment fees, merger related expenses and core deposit amortization) to total tax-equivalent revenue (excluding gains and/or losses on securities and gain and/or losses on debt extinguishment). In 2019, the Company's efficiency ratio on a tax equivalent basis was 54.83% compared to 56.09% in 2018 and 53.40% in 2017.

	For the Year Ended December 31,				
(dollars in thousands)	2019	2018	2017	2016	2015
Calculation of Efficiency Ratio (a Non-GAAP Measure)					
Total noninterest expense	$ 126,756	$ 111,167	$ 104,534	$ 99,917	$ 87,211
Less:					
Amortization of core deposit intangibles	(1,182)	(594)	(654)	(734)	(415)
Merger related expenses	(3,178)	(464)	—	(4,103)	(1,152)
Long-term debt prepayment fee	—	—	(2,828)	—	(2,407)
Noninterest expense, as adjusted	$ 122,396	$ 110,109	$ 101,052	$ 95,080	$ 83,237
Net interest income	$ 196,034	$ 173,559	$ 165,238	$ 145,649	$ 116,640
Noninterest income	26,796	22,310	25,435	21,330	21,161
Total revenue	222,830	195,869	190,673	166,979	137,801
Plus: Tax-equivalent adjustment on municipal securities	401	454	1,074	962	857
Less: Gains on sales of investment securities and debt extinguishment	—	—	(2,524)	(370)	(2,071)
Total revenue, as adjusted	$ 223,231	$ 196,323	$ 189,223	$ 167,571	$ 136,587
Efficiency ratio (Non-GAAP)	54.83%	56.09%	53.40%	56.74%	60.94%

Income Taxes

The Company's effective income tax rate was 24.8%, 21.0% and 34.3%, in the years ended December 31, 2019, 2018 and 2017, respectively. The effective tax rate increase from 2018 to 2019 was primarily a result of a technical bulletin issued by the New Jersey Division of Taxation during the second quarter of 2019 that provided guidance on which entities are to be included in the combined tax return. The effective tax rate decrease from 2017 to 2018 was primarily as a result of the change in tax rates resulting from the Tax Cuts and Jobs Act of 2017 (the "Tax Act") and the changes in New Jersey tax law during 2018.

Financial Condition

Total assets increased from $5.81 billion at December 31, 2018 to $6.71 billion at December 31, 2019, an increase of $905.1 million, or 16%. Loans, net of deferred fees, were $5.14 billion, an increase of $681.1 million, or 15%, from $4.46 billion at December 31, 2018. Total deposits were $5.29 billion, an increase of $673.1 million, or 15%, from December 31, 2018. Total assets at year-end 2018 increased $400.5 million, or 7%, from year-end 2017.

With the completion of the Highlands merger in January 2019, the Company recorded the assets acquired and the liabilities assumed in the acquisition at their estimated fair values as of the acquisition date. Total assets acquired were $496.5 million, total loans and total deposits acquired were $426.1 million and $409.6 million, respectively.

Loans

Lakeland primarily serves New Jersey, the Hudson Valley region in New York and the surrounding areas. Its equipment finance division serves a broader market with a primary focus on the Northeast.

Gross loans of $5.14 billion increased by $680.5 million from December 31, 2018, primarily in the commercial loans secured by real estate category. Commercial loans secured by real estate increased $531.8 million, or 17%, from December 31, 2018 to December 31, 2019, $332.8 million of which was from the Highlands acquisition. Commercial, industrial and other loans increased $95.2 million, or 28%, $44.7 million of which was from the Highlands acquisition. Additionally, equipment finance increased $23.2 million, or 26% during 2019. Gross loans of $4.46 billion at December 31, 2018 increased by $303.8 million from December 31, 2017, primarily in the commercial loans secured by real estate category.

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

	December 31,				
(in thousands)	2019	2018	2017	2016	2015
Commercial, secured by real estate	$ 3,589,593	$ 3,057,779	$ 2,831,184	$ 2,556,601	$ 1,761,589
Commercial, industrial and other	431,934	336,735	340,400	350,228	307,044
Equipment finance	111,076	87,925	75,039	67,016	56,660
Real estate - residential mortgage	335,191	329,854	322,880	349,581	389,692
Real estate - construction	335,169	319,545	264,908	211,109	118,070
Home equity and consumer	337,977	328,609	322,269	339,360	334,891
Total loans	5,140,940	4,460,447	4,156,680	3,873,895	2,967,946
Deferred fees	(3,117)	(3,714)	(3,960)	(3,297)	(2,746)
Loans, net	$ 5,137,823	$ 4,456,733	$ 4,152,720	$ 3,870,598	$ 2,965,200

At December 31, 2019, there were no concentrations of loans exceeding 10% of total loans outstanding other than loans that are secured by real estate. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other related conditions.

The following table sets forth maturities and sensitivity to changes in interest rates in commercial loans in Lakeland's loan portfolio at December 31, 2019:

(in thousands)	Within One Year	After One but Within Five Years	After Five Years	Total
Commercial, secured by real estate	$ 212,023	$ 729,850	$ 2,647,720	$ 3,589,593
Commercial, industrial and other	195,559	137,016	99,359	431,934
Real estate - construction	121,159	77,832	136,178	335,169
Total commercial loans	$ 528,741	$ 944,698	$ 2,883,257	$ 4,356,696
Predetermined rates	$ 117,766	$ 676,775	$ 292,143	$ 1,086,684
Floating or adjustable rates	410,975	267,923	2,591,114	3,270,012
Total commercial loans	$ 528,741	$ 944,698	$ 2,883,257	$ 4,356,696

Risk Elements

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

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

	December 31,				
(dollars in thousands)	2019	2018	2017	2016	2015
Commercial, secured by real estate	$ 12,314	$ 7,192	$ 5,890	$ 10,413	$ 10,446
Commercial, industrial and other	1,539	1,019	184	167	103
Equipment finance	284	501	144	153	316
Real estate - residential mortgage	3,428	1,986	3,860	6,048	8,664
Real estate - construction	967	—	1,472	1,472	—
Home equity and consumer	2,606	1,432	2,105	2,151	3,167
Total non-accrual loans	21,138	12,130	13,655	20,404	22,696
Other real estate and other repossessed assets	563	830	843	1,072	983
Total non-performing assets	$ 21,701	$ 12,960	$ 14,498	$ 21,476	$ 23,679
Non-performing assets as a percentage of total assets	0.32%	0.22%	0.27%	0.42%	0.61%
Loans past due 90 days or more and still accruing	$ —	$ —	$ 200	$ 10	$ 331
Troubled debt restructurings, still accruing	$ 5,650	$ 9,293	$ 11,462	$ 8,802	$ 10,108

Non-accrual loans increased to $21.1 million on December 31, 2019 from $12.1 million at December 31, 2018 primarily in the commercial loans secured by real estate category, which increased $5.1 million due primarily to four loan relationships totaling $7.6 million. Additionally, residential mortgage and home equity and consumer non-accruals increased $1.4 million and $1.2 million, respectively, compared to December 31, 2018.

Non-accruals include four loan relationships between $500,000 and $1.0 million totaling $3.6 million, and five loan relationships exceeding $1.0 million totaling $9.4 million. All non-accrual loans are in various stages of litigation, foreclosure, or workout. Non-accrual loans included $1.6 million and $3.6 million in troubled debt restructurings as of December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, Lakeland had $5.7 million and $9.3 million, respectively, in loans that were restructured and still accruing. Restructured loans that are still accruing are those loans where Lakeland has granted concessions to the borrower in payment terms, in rate and/or in maturity as a result of the financial difficulties of the borrower where the borrower has demonstrated the ability to repay based on the modified terms of the loan.

For 2019, the gross interest income that would have been recorded, had the loans classified at year-end as impaired been performing in conformance with their original terms, was approximately $1.0 million. The amount of interest income actually recorded on those loans for 2019 was $426,000. The resultant loss of $601,000 for 2019 compares with prior year losses of $505,000 for 2018 and $785,000 for 2017.

As of December 31, 2019, Lakeland had impaired loans totaling $22.1 million (consisting primarily of non-accrual and restructured loans), compared to $19.7 million at December 31, 2018. The valuation allowance of these loans is based primarily on the fair value of the underlying collateral. Based upon such evaluation, $352,000 has been allocated to the allowance for loan losses for impairment at December 31, 2019 compared to $338,000 at December 31, 2018. At December 31, 2019, Lakeland also had $47.7 million in loans that were rated substandard that were not classified as non-performing or impaired compared to $41.8 million at December 31, 2018.

There were no additional loans at December 31, 2019, other than those designated non-performing, impaired or substandard, where Lakeland was aware of any credit conditions of any borrowers that would indicate a strong possibility of the borrowers not complying with the present terms and conditions of repayment and which may result in such loans being included as non-accrual, past due or renegotiated at a future date.

The following table sets forth for each of the five years ended December 31, 2019, the historical relationships among the amount of loans outstanding, the allowance for loan losses, the provision for loan losses, the amount of loans charged off and the amount of loan recoveries:

	Years Ended December 31,				
(dollars in thousands)	2019	2018	2017	2016	2015
Allowance balance, beginning of the year	$ 37,688	$ 35,455	$ 31,245	$ 30,874	$ 30,684
Loans charged off:					
Commercial, secured by real estate	(544)	(421)	(762)	(410)	(1,821)
Commercial, industrial and other	(645)	(1,452)	(477)	(796)	(205)
Equipment finance	(414)	(507)	(305)	(366)	(548)
Real estate - residential mortgage	(50)	(131)	(441)	(1,103)	(375)
Real estate - construction	—	(248)	(609)	—	(20)
Home equity and consumer	(283)	(588)	(852)	(1,980)	(1,511)
Total loans charged off	(1,936)	(3,347)	(3,446)	(4,655)	(4,480)
Recoveries:					
Commercial, secured by real estate	251	468	396	297	2,221
Commercial, industrial and other	1,100	317	172	202	183
Equipment finance	332	23	59	31	26
Real estate - residential mortgage	66	10	5	8	63
Real estate - construction	126	17	31	18	106
Home equity and consumer	246	332	903	247	129
Total recoveries	2,121	1,167	1,566	803	2,728
Net recoveries (charge-offs)	185	(2,180)	(1,880)	(3,852)	(1,752)
Provision for loan losses	2,130	4,413	6,090	4,223	1,942
Allowance balance, end of year	$ 40,003	$ 37,688	$ 35,455	$ 31,245	$ 30,874
Net charge-offs as a percentage of average loans outstanding	— %	0.05%	0.05%	0.11%	0.06%
Allowance as a percentage of year-end total loans outstanding	0.78 %	0.84%	0.85%	0.81%	1.04%
Allowance as a percent of non-accrual loans	189.25 %	310.70%	259.65%	153.13%	136.03%

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

Non-accrual loans increased from $12.1 million on December 31, 2018 to $21.1 million on December 31, 2019 and the allowance for loan losses was 0.78% of total loans on December 31, 2019 compared to 0.84% of total loans on December 31, 2018. The reduction in the allowance for loan losses as a percent of total loans was primarily due to the addition of the loans from the Highlands acquisition, which we accounted for under acquisition accounting and have no allowance for loan losses. Excluding the loans from prior acquisitions, the allowance as a percentage of total loans was 0.88% at December 31, 2019. Management believes, based on appraisals and estimated selling costs, that the majority of its non-performing loans are well secured and that the reserves on its non-performing loans are adequate. Based upon the process employed and giving recognition to all accompanying factors related to the loan portfolio, management considers the allowance for loan losses to be adequate at December 31, 2019.

The overall balance of the allowance for loan losses of $40.0 million at December 31, 2019 increased $2.3 million from December 31, 2018, an increase of 6%. The change of the allowance within segments of the loan portfolio reflects changes in the non-performing loans and charge-off statistics within each segment as well as the level of growth within each segment. Loan reserves are based on a combination of historical charge-off experience, estimating the appropriate loss emergence and pre-emergence periods and assigning qualitative factors based on general economic conditions and specific bank portfolio characteristics.

The increase in the allowance from December 31, 2018 to December 31, 2019 within the commercial, secured by real estate segment and in the commercial, industrial and other segment reflects loan growth in these segments, as well as an increase in non-performing loans.

The following table sets forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	December 31,									
	2019		2018		2017		2016		2015	
	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category
(dollars in thousands)										
Commercial, secured by real estate	$ 28,950	69.8%	$ 27,881	68.5%	$ 25,704	68.0%	$ 21,223	66.1%	$ 20,223	59.4%
Commercial, industrial and other	3,289	8.4%	1,742	7.5%	2,313	8.2%	1,723	9.0%	2,637	10.3%
Equipment finance	957	2.2%	987	2.0%	630	1.8%	548	1.7%	460	1.9%
Real estate - residential mortgage	1,725	6.5%	1,566	7.4%	1,557	7.8%	1,964	9.0%	2,588	13.1%
Real estate - construction	2,672	6.5%	3,015	7.2%	2,731	6.4%	2,352	5.4%	1,591	4.0%
Home equity and consumer	2,410	6.6%	2,497	7.4%	2,520	7.8%	3,435	8.8%	3,375	11.3%
	$ 40,003	100.0%	$ 37,688	100.0%	$ 35,455	100.0%	$ 31,245	100.0%	$ 30,874	100.0%

Investment Securities

The Company has classified its investment securities into the available for sale and held to maturity categories based on its intent and ability to hold the securities to maturity.

The Company early adopted ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging and Topic 825, Financial Instruments, and reclassified securities with a book value of $20.8 million and an unrealized gain of $291,000 from held to maturity to securities available for sale during the fourth quarter of 2019.

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

	December 31,		
(in thousands)	2019	2018	2017
U.S. Treasury and U.S. government agencies	$ 166,982	$ 173,952	$ 180,670
Mortgage-backed securities, residential	578,108	502,003	469,245
Mortgage-backed securities, multifamily	50,935	22,803	12,034
Obligations of states and political subdivisions	72,182	83,414	94,638
Debt securities	11,668	10,092	11,144
	$ 879,875	$ 792,264	$ 767,731

In addition, the Company has an equity securities portfolio, which consists of investments in other financial institutions for market appreciation purposes and investments in community reinvestment funds, with a carrying value of $16.5 million, $15.9 million and $18.1 million, at December 31, 2019, 2018 and 2017, respectively.

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

The following tables set forth the maturity distribution and weighted average yields (calculated on the basis of the stated yields to maturity, considering applicable premium or discount), on a fully taxable equivalent basis, of investment securities as of December 31, 2019, at book value:

(dollars in thousands)	Within One Year	Over One but Within Five Years	Over Five but Within Ten Years	After Ten Years	Total
Available for Sale					
U.S. Treasury and U.S. government agencies					
Amount	$ 23,516	$ 74,638	$ 22,439	$ 15,054	$135,647
Yield	1.74%	1.91%	2.99%	2.92%	2.17%
Mortgage-backed securities, residential					
Amount	3	5,218	64,308	432,350	501,879
Yield	5.62%	2.32%	2.15%	2.45%	2.41%
Mortgage-backed securities, multifamily					
Amount	4,878	14,289	—	30,018	49,185
Yield	1.73%	2.80%	—%	2.94%	2.78%
Obligations of states and political subdivisions					
Amount	6,270	31,973	21,778	—	60,021
Yield	2.65%	2.07%	2.17%	—%	2.17%
Debt securities					
Amount	—	—	9,168	—	9,168
Yield	—%	—%	6.25%	—%	6.25%
Total securities					
Amount	$ 34,667	$126,118	$117,693	$477,422	$755,900
Yield	1.91%	2.07%	2.63%	2.50%	2.42%

(dollars in thousands)	Within One Year	Over One but Within Five Years	Over Five but Within Ten Years	After Ten Years	Total
Held to Maturity					
U.S. Treasury and U.S. government agencies					
Amount	$ 5,104	$ 23,030	$ 3,201	$ —	$ 31,335
Yield	1.60%	2.04%	3.38%	—%	2.11%
Mortgage-backed securities, residential					
Amount	—	116	1,759	74,354	76,229
Yield	—%	5.03%	2.17%	2.44%	2.44%
Mortgage-backed securities, multifamily					
Amount	999	—	751	—	1,750
Yield	2.33%	—%	—%	—%	1.33%
Obligations of states and political subdivisions					
Amount	2,217	8,072	1,114	758	12,161
Yield	2.26%	2.04%	2.21%	2.00%	2.09%
Debt securities					
Amount	—	—	2,500	—	2,500
Yield	—%	—%	6.25%	—%	6.25%
Total securities					
Amount	$ 8,320	$ 31,218	$ 9,325	$ 75,112	$123,975
Yield	1.86%	2.05%	3.51%	2.43%	2.38%

Other Assets

Assets included within "other assets" on the Company's balance sheet increased from $42.3 million at December 31, 2018 to $54.7 million at December 31, 2019 primarily due to a $15.8 million increase in swap assets.

Deposits

Total deposits increased from $4.62 billion at December 31, 2018 to $5.29 billion at December 31, 2019, an increase of $673.1 million, or 15%, including $409.6 million acquired in the Highlands merger. Noninterest-bearing deposits increased $173.9 million, or 18%, to $1.12 billion, while savings and interest-bearing transaction accounts and time deposits increased $385.4 million and $113.8 million, respectively. The Highlands acquisition included $81.1 million, $196.2 million and $132.3 million in noninterest-bearing transaction accounts, savings and interest-bearing transaction accounts and time deposits, respectively.

Total deposits increased from $4.37 billion at December 31, 2017 to $4.62 billion at December 31, 2018, an increase of $251.9 million, or 6%.

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

	Year Ended December 31,					
	2019		2018		2017	
(dollars in thousands)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand deposits	$ 1,092,827	—%	$ 984,445	—%	$ 959,298	—%
Interest-bearing transaction accounts	2,653,404	1.17%	2,301,065	0.81%	2,241,259	0.45%
Savings	500,650	0.07%	489,742	0.06%	486,821	0.06%
Time deposits	922,412	1.92%	778,180	1.49%	623,257	0.98%
Total	$ 5,169,293	0.95%	$ 4,553,432	0.67%	$ 4,310,635	0.38%

As of December 31, 2019, the aggregate amount of outstanding time deposits issued in amounts of greater than $250,000, broken down by time remaining to maturity, was as follows:

(in thousands)	
Within 3 months	$ 81,861
Over 3 through 6 months	60,350
Over 6 through 12 months	54,577
Over 12 months	21,872
Total	$ 218,660

Federal Home Loan Bank Advances and Other Borrowings

Lakeland may borrow from time to time from the Federal Home Loan Bank ("FHLB") and other correspondent banks as part of its overall funding and liquidity management program. The following tables provide a summary of the borrowings as of and for the years ended December 31, 2019, 2018 and 2017.

(dollars in thousands)	2019	2018	2017
Federal Funds Purchased			
Balance at December 31,	$ 284,983	$ 192,064	$ 80,000
Weighted average interest rate at December 31,	1.85%	2.88%	1.71%
Average daily balance during the year	$ 52,421	$ 21,338	$ 13,264
Weighted average interest rate during the year	2.56%	2.03%	1.42%
Maximum amount outstanding at any month-end during the year	$ 385,000	$ 214,165	$ 168,784

(dollars in thousands)	2019	2018	2017
Securities Sold Under Agreements to Repurchase			
Balance at December 31,	$ 43,675	$ 41,841	$ 44,936
Weighted average interest rate at December 31,	0.33%	0.26%	0.02%
Average daily balance during the year	$ 42,615	$ 32,435	$ 28,480
Weighted average interest rate during the year	0.30%	0.12%	0.03%
Maximum amount outstanding at any month-end during the year	$ 49,669	$ 50,526	$ 44,936

At December 31, 2019, 2018 and 2017, FHLB advances totaled $165.8 million with a weighted average interest rate of 2.24%, $181.1 million with a weighted average interest rate of 2.10% and $172.0 million with a weighted average interest rate of 1.69%, respectively. All advances mature within four years of December 31, 2019 and are secured by certain first mortgage loans.

Derivatives

Lakeland enters into interest rate swaps ("swaps") with loan customers to provide a facility to mitigate the fluctuations in the variable rate on the respective loans. These swaps are matched in offsetting terms to swaps that Lakeland enters into with an outside third party. The swaps are reported at fair value in other assets or other liabilities. Lakeland's swaps qualify as derivatives, but are not designated as hedging instruments; thus any net gain or loss resulting from changes in the fair value is recognized in other noninterest income.

In 2016, the Company entered into two cash flow hedges in order to hedge the variable cash outflows associated with its subordinated debentures. The notional value of these hedges was $30.0 million. The Company's objectives in using the cash flow hedge is to add stability to interest expense and to manage its exposure to interest rate movements. The Company used interest rate swaps designated as cash flow hedges which involved the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. In these particular hedges the Company is paying a third party an average of 1.10% in exchange for a payment at 3 month LIBOR over a five year period. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2019, the Company did not record any hedge ineffectiveness.

Further discussion of Lakeland's financial derivatives is set forth in Note 19 to the Consolidated Financial Statements.

Liquidity

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

Lakeland funds loan demand and operation expenses from several sources:

- Net income. Cash provided by operating activities was $87.1 million in 2019 compared to $79.4 million and $67.5 million in 2018 and 2017, respectively.
- Deposits. Lakeland can offer new products or change its rate structure in order to increase deposits. In 2019, Lakeland generated $263.4 million in deposit growth, excluding the impact of the Highlands acquisition, compared to $251.9 million in 2018.
- Sales of securities and overnight funds. At year-end 2019, the Company had $755.9 million in securities designated "available for sale." Of these securities, $520.3 million was pledged to secure public deposits and for other purposes required by applicable laws and regulations.
- Repayments on loans can also be a source of liquidity to fund further loan growth.
- Overnight credit lines. As a member of the Federal Home Loan Bank of New York ("FHLB"), Lakeland has the ability to borrow overnight and short term based on the market value of collateral pledged. Lakeland had $200.0 million in overnight and short term borrowings from the FHLB on December 31, 2019. Lakeland also has overnight federal funds lines available for it to borrow up to $230.0 million from correspondent banks. Lakeland had borrowings against these lines of $85.0 million at December 31, 2019. Lakeland also has the ability to utilize a line of credit from the FHLB to secure a portion of its public deposits. Lakeland may also borrow from the discount window of the Federal Reserve Bank of New York based on the market value of collateral pledged. Lakeland had no borrowings with the Federal Reserve Bank of New York as of December 31, 2019.

- Other borrowings. Lakeland can also generate funds by utilizing long-term debt or securities sold under agreements to repurchase that would be collateralized by security or mortgage collateral. At times the market values of securities collateralizing our securities sold under agreements to repurchase may decline due to changes in interest rates and may necessitate our lenders to issue a “margin call” which requires the Company to pledge additional collateral to meet that margin call. For more information regarding the Company’s borrowings, see Note 9 to the Consolidated Financial Statements.

Management and the Board of Directors monitor the Company’s liquidity through the Asset/Liability Committee, which monitors the Company’s compliance with certain regulatory ratios and other various liquidity guidelines.

The cash flow statements for the periods presented provide an indication of the Company’s sources and uses of cash, as well as an indication of the ability of the Company to maintain an adequate level of liquidity. Cash and cash equivalents totaling $282.4 million on December 31, 2019, increased $73.8 million from December 31, 2018. Operating activities provided $87.1 million in net cash. Investing activities used $304.0 million in net cash, primarily reflecting an increase in loans. Financing activities provided $290.6 million in net cash primarily reflecting a net increase in deposits of $264.3 million, and an increase in federal funds purchased and securities sold under agreements to repurchase of $94.8 million, partially offset by dividends paid and net repayments of other borrowings of $24.9 million and $43.1 million, respectively.

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

Off Balance Sheet Arrangements and Aggregate Contractual Obligations

The following table sets forth contractual obligations and other commitments representing required cash outflows as of December 31, 2019. Interest on subordinated debentures and other borrowings is calculated based on current contractual interest rates.

	Payment Due Period				
(in thousands)	Total	Within One Year	After One but Within Three Years	After Three but Within Five Years	After Five Years
Minimum annual rentals or noncancellable operating leases	$ 24,010	$ 3,300	$ 5,683	$ 4,465	$ 10,562
Benefit plan commitments	5,314	397	793	798	3,326
Remaining contractual maturities of time deposits	870,804	715,060	146,178	9,478	88
Subordinated debentures	118,220	—	—	5,335	112,885
Loan commitments and lines of credit	1,086,522	753,101	150,143	81,705	101,573
Other borrowings	165,816	55,881	85,498	24,437	—
Interest on other borrowings (1)	58,529	9,436	15,816	12,451	20,826
Standby letters of credit	17,204	16,909	215	80	—
Total	$ 2,346,419	$ 1,554,084	$ 404,326	$ 138,749	$ 249,260

(1) Includes interest on other borrowings and subordinated debentures at a weighted rate of 3.49%.

Interest Rate Risk

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

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

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

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

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

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

Management reviews the accuracy of its model by back testing its results (comparing predicted results in past models with current data), and it periodically reviews its prepayment assumptions, decay rates and other assumptions.

The starting point (or "base case") for the following table is an estimate of the following year's net interest income assuming that both interest rates and the Company's interest-sensitive assets and liabilities remain at year-end levels. The net interest income estimated for 2019 (the base case) is $201.8 million. The information provided for net interest income assumes that changes in interest rates change gradually in equal increments ("rate ramp") over the twelve month period.

	Changes in Interest Rates	
Rate Ramp	+200 bp	-200 bp
Asset/Liability Policy limit	(5.0)%	(5.0)%
December 31, 2019	(0.6)%	(0.7)%
December 31, 2018	(1.5)%	(0.7)%

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

	Changes in Interest Rates				
Rate Shock	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp
Asset/Liability Policy limit	(15.0)%	(10.0)%	(5.0)%	(5.0)%	(10.0)%
December 31, 2019	2.4 %	1.7 %	1.1 %	(3.3)%	(4.6)%
December 31, 2018	0.6 %	0.4 %	0.3 %	(2.5)%	(8.0)%

The base case for the following table is an estimate of the Company's net portfolio value for the periods presented using current discount rates, and assuming the Company's interest-sensitive assets and liabilities remain at year-end levels. The net portfolio value at December 31, 2019 (the base case) was $873.0 million. The information provided for the net portfolio value assumes fluctuations or rate shocks for changes in interest rates as shown in the table below.

	Changes in Interest Rates				
Rate Shock	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp
Asset/Liability Policy limit	(25.0)%	(20.0)%	(10.0)%	(10.0)%	(20.0)%
December 31, 2019	(4.8)%	(2.8)%	(0.9)%	(1.2)%	(5.2)%
December 31, 2018	(5.2)%	(3.3)%	(1.4)%	(0.2)%	(1.5)%

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

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

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes in net interest income requires the making of certain assumptions regarding prepayment and deposit decay rates, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. While management believes such assumptions are reasonable, there can be no assurance that assumed prepayment rates and decay rates will approximate actual future loan prepayment and deposit withdrawal activity. Moreover, the net interest income table presented assumes that the composition of interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the net interest income table provides an indication of the Company's interest rate risk exposure at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.

Effects of Inflation

The impact of inflation, as it affects banks, differs substantially from the impact on non-financial institutions. Banks have assets which are primarily monetary in nature and which tend to move with inflation. This is especially true for banks with a high percentage of rate sensitive interest-earning assets and interest-bearing liabilities. A bank can further reduce the impact of inflation with proper management of its rate sensitivity gap. This gap represents the difference between interest rate sensitive assets and interest rate sensitive liabilities. Lakeland attempts to structure its assets and liabilities and manages its gap to protect against substantial changes in interest rate scenarios, in order to minimize the potential effects of inflation.

Capital Resources

Stockholders' equity increased from $623.7 million on December 31, 2018 to $725.3 million on December 31, 2019. The increase in stockholders' equity from December 31, 2018 to December 31, 2019 was primarily due to $70.7 million of net income and $43.4 million in equity acquired in the Highlands merger, partially offset by the payment of cash dividends on common stock of $24.9 million.

Book value per common share (total common stockholders' equity divided by the number of shares outstanding) increased from $13.14 on December 31, 2018 to $14.36 on December 31, 2019, primarily as a result of net income. Book value per common share was $12.31 on December 31, 2017. Tangible book value per share increased from $10.22 on December 31, 2018 to $11.18 on December 31, 2019. For more information see "Non-GAAP Financial Measures."

The Company and Lakeland are subject to various regulatory capital requirements that are monitored by federal and state banking agencies. Failure to meet minimum capital requirements can lead to certain supervisory actions by regulators; any supervisory action could have a direct material adverse effect on the Company or Lakeland's financial statements. As of December 31, 2019, the Company and Lakeland met all capital adequacy requirements to which they are subject.

The final rules implementing the Basel Committee on Banking Supervision's ("BCBS") capital guidelines for U.S. banks became effective for the Company on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule, with full phase-in completed on January 1, 2019. As of December 31, 2019, the Company's capital levels remained characterized as "well-capitalized" under the new rules.

The following table reflects capital ratios of the Company and Lakeland as of December 31, 2019 and 2018:

	Tier 1 Capital to Total Average Assets Ratio December 31,		Common Equity Tier 1 to Risk-Weighted Assets Ratio December 31,		Tier 1 Capital to Risk-Weighted Assets Ratio December 31,		Total Capital to Risk-Weighted Assets Ratio December 31,	
Capital Ratios	2019	2018	2019	2018	2019	2018	2019	2018
Company	9.41%	9.39%	10.46%	10.62%	11.02%	11.27%	13.40%	13.71%
Lakeland	10.16%	10.17%	11.89%	12.20%	11.89%	12.20%	12.67%	13.06%
Required capital ratios including conservation buffer	4.00%	4.00%	7.00%	6.38%	8.50%	7.88%	10.50%	9.88%
"Well capitalized" institution under FDIC regulations	5.00%	5.00%	6.50%	6.50%	8.00%	8.00%	10.00%	10.00%

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Act") was signed into law during the second quarter of 2018. The Act, among other matters, amends the Federal Deposit Insurance Act to require federal banking agencies to develop a specified Community Bank Leverage Ratio (the ratio of a bank's equity capital to its average total consolidated assets) for banks with assets of less than $10 billion. Qualifying participating banks that exceed this ratio shall be deemed to comply with all other capital and leverage requirements. In September 2019, the FDIC approved a final rule allowing community banks with a leverage capital ratio of at least 9% to be considered in compliance with Basel III capital requirements and exempt from the Basel Calculation. Under the final rule, banks with less than $10 billion in assets may elect the community bank leverage ratio framework if they meet the 9% ratio and if they hold 25% or less of assets in off-balance sheet exposures, and 5% or less of assets in trading assets and liabilities. For institutions that fall below the 9% capital requirement but remain above 8%, the final rule establishes a two-quarter grace period to either meet the qualifying criteria again or comply with the generally applicable capital rule. Management is still reviewing the Community Bank Leverage Ratio framework, but does not expect that Lakeland Bancorp or Lakeland Bank will elect to use the Community Bank Leverage Ratio framework.

Non-GAAP Financial Measures

Calculation of Tangible Book Value Per Common Share

	December 31,				
(dollars in thousands)	2019	2018	2017	2016	2015
Total common stockholders' equity at end of period - GAAP	$ 725,263	$ 623,739	$ 583,122	$ 550,044	$ 400,516
Less:					
Goodwill	156,277	136,433	136,433	135,747	109,974
Other identifiable intangible assets, net	4,314	1,768	2,362	3,344	1,545
Total tangible common stockholders' equity at end of period - Non-GAAP	$ 564,672	$ 485,538	$ 444,327	$ 410,953	$ 288,997
Shares outstanding at end of period	50,498	47,486	47,354	47,223	37,906
Book value per share - GAAP	$ 14.36	$ 13.14	$ 12.31	$ 11.65	$ 10.57
Tangible book value per share - Non-GAAP	$ 11.18	$ 10.22	$ 9.38	$ 8.70	$ 7.62

Calculation of Tangible Common Equity to Tangible Assets

(dollars in thousands)	December 31, 2019	2018	2017	2016	2015
Total tangible common stockholders' equity at end of period - Non-GAAP	$ 564,672	$ 485,538	$ 444,327	$ 410,953	$ 288,997
Total assets at end of period - GAAP	$ 6,711,236	$ 5,806,093	$ 5,405,639	$ 5,093,131	$ 3,869,550
Less:					
Goodwill	156,277	136,433	136,433	135,747	109,974
Other identifiable intangible assets, net	4,314	1,768	2,362	3,344	1,545
Total tangible assets at end of period - Non-GAAP	$ 6,550,645	$ 5,667,892	$ 5,266,844	$ 4,954,040	$ 3,758,031
Common equity to assets - GAAP	10.81%	10.74%	10.79%	10.80%	10.35%
Tangible common equity to tangible assets - Non-GAAP	8.62%	8.57%	8.44%	8.30%	7.69%

Calculation of Return on Average Tangible Common Equity

(dollars in thousands)	For the Years Ended December 31, 2019	2018	2017	2016	2015
Net income - GAAP	$ 70,672	$ 63,401	$ 52,580	$ 41,518	$ 32,481
Total average common stockholders' equity - GAAP	$ 697,037	$ 598,527	$ 568,680	$ 474,540	$ 392,221
Less:					
Average goodwill	154,971	136,433	136,095	130,689	109,974
Average other identifiable intangible assets, net	4,883	2,064	2,847	3,225	1,759
Total average tangible common stockholders' equity - Non-GAAP	$ 537,183	$ 460,030	$ 429,738	$ 340,626	$ 280,488
Return on average common stockholders' equity - GAAP	10.14%	10.59%	9.25%	8.75%	8.28%
Return on average tangible common stockholders' equity - Non-GAAP	13.16%	13.78%	12.24%	12.19%	11.58%

Reconciliation of Net Income

(in thousands, except per share data)	For the Year Ended December 31, 2019	2018
Net income - GAAP	$ 70,672	$ 63,401
NON-ROUTINE TRANSACTIONS, NET OF TAX		
Tax deductible merger-related expenses	1,878	84
Non-tax deductible merger-related expenses	491	345
Net effect of non-routine transactions	2,369	429
Net income available to common shareholders excluding non-routine transactions	73,041	63,830
Less: Earnings allocated to participating securities	(596)	(582)
Net Income, excluding non-routine transactions	$ 72,445	$ 63,248
Weighted average shares - Basic	50,477	47,578
Weighted average shares - Diluted	50,642	47,766
Basic earnings per share - GAAP	$ 1.39	$ 1.32
Diluted earnings per share - GAAP	$ 1.38	$ 1.32
Basic earnings per share, adjusted for non-routine transactions	$ 1.44	$ 1.33
Diluted earnings per share, adjusted for non-routine transactions (Core EPS)	$ 1.43	$ 1.32
Return on average assets - GAAP	1.12%	1.15%
Return on average assets, adjusted for non-routine transactions	1.16%	1.15%
Return on average common stockholders' equity - GAAP	10.14%	10.59%
Return on average common stockholders' equity, adjusted for non-routine transactions	10.48%	10.66%
Return on average tangible common stockholders' equity - Non-GAAP	13.16%	13.78%
Return on average tangible common stockholders' equity - Non-GAAP, adjusted for non-routine transactions	13.60%	13.88%

Recent Accounting Pronouncements

In January 2020, the Financial Accounting Standards Board ("FASB") issued Update 2020-01, an update to Topic 321, Investments, Topic 323, Joint Ventures and Topic 815, Derivatives and Hedging. The update clarifies the accounting for certain equity securities upon the application or discontinuation of the equity method of accounting in accordance with Topic 321. In addition, the update clarifies scope considerations for forward contracts and purchased options on certain securities. This update will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2020. The Company does not expect the update to have a material impact on the Company's financial statements.

In December 2019, FASB issued Update 2019-12, an update to Topic 740, Income Taxes, as part of an initiative to reduce complexity in accounting standards for income taxes. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This update will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2021 with early adoption permitted. The Company does not expect the update to have a material impact on the Company's financial statements.

In August 2018, the FASB issued Update 2018-13, an update to Topic 820, Fair Value Measurement, to improve the effectiveness of fair value measurement disclosures. Among other provisions, the update removes requirements to disclose amounts of and reasons for transfers between Level 1 and Level 2 in the fair value hierarchy, and it modifies the disclosures regarding transfers in and out of Level 3 of the fair value hierarchy. The update requires a discussion regarding the change in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. This update will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2019. Because the Company does not typically have Level 3 fair value measurements, the update is not expected to have a material impact on the Company's financial statements.

In August 2018, the FASB issued Update 2018-15, an update to Subtopic 350-40, Intangibles - Goodwill and Other - Internal-Use Software, which aligns the requirements for capitalizing implementation costs in a cloud-computing arrangement service contract with the requirements for capitalizing implementation costs incurred for an internal-use software license. Implementation costs incurred by customers in a cloud computing arrangement are to be deferred and recognized over the term of the arrangement, if those costs would be capitalized by the customer in a software licensing arrangement under the internal-use software guidance. This update will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2019. The adoption of this update is not expected to have a material impact on the Company's financial statements.

In August 2018, the FASB issued Update 2018-14, an update to Subtopic 715-20, Compensation - Retirement Benefits - Defined Benefit Plans - General, which changes the disclosure of accounting and reporting requirements related to single-employer defined benefit pension or other postretirement benefit plans. The amendments in the update remove disclosures that are no longer considered cost-beneficial, clarify the specific requirements of disclosures and add disclosure requirements identified as relevant. For calendar-year public companies, the changes will be effective for annual periods, including interim periods within those annual periods, in 2020. Because the Company has minimal pension plans that require calculation of projected benefit obligations or accumulated benefit obligations, the update will not have a material impact on the Company's financial statements.

In June 2018, the FASB issued Update 2018-07, an update to Topic 718, Compensation - Stock Compensation, expanding earlier guidance on stock compensation to include share-based payments issued to nonemployees for goods and services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially the same. This update is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2018. Earlier adoption was permitted. The adoption of this update did not have a significant impact on the Company's financial statements.

In August 2017, the FASB issued Update 2017-05, an update to Subtopic 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets, intended to improve and simplify accounting rules around hedge accounting. Amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this update also make certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. This update will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2019. The adoption of this update is not expected to have a material impact on the Company's financial statements.

In July 2017, the FASB issued Update 2017-11, guidance which simplifies the accounting for certain financial instruments with down round features, a provision in an equity-linked financial instrument (or embedded feature) that provides a downward adjustment of the current exercise price based on the price of future equity offerings. The provisions of the new guidance related to down rounds are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this update did not have a material impact on the Company's financial statements because the Company does not have any equity-linked financial instruments that have such down round features.

In March 2017, the FASB issued Update 2017-08, an update to Subtopic 310-20, Receivables - Nonrefundable Fees and Other Costs, which shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. Under current GAAP, entities amortize the premium as an adjustment of yield over the contractual life of the instrument even if the holder is certain that the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. The update shortens the amortization period for certain callable debt securities held at a premium and requires the premium be amortized to the earliest call date. This update will be effective for annual and interim periods beginning after December 15, 2018. Entities are required to apply the amendments on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The adoption of this update did not have a material impact on the Company's financial statements.

In January 2017, the FASB issued Update 2017-04, an update to Topic 350, Intangibles - Goodwill and Other, to simplify the test for goodwill impairment. This amendment eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. This update will be effective for the Company's financial statements for annual years beginning after December 15, 2019. The adoption of this update is not expected to have a material impact on the Company's financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL"), further amended by ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. Topic 326 pertains to the measurement of credit losses on financial instruments. This update requires the measurement of all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. This update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This update will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2019.

Subsequent to year-end, we adopted Topic 326 as of January 1, 2020, using a modified retrospective approach. Our CECL methodology includes the following key factors and assumptions for all loan portfolio segments: a) the calculation of a baseline lifetime loss by applying a segment-specific historical average annual loss rate, calculated using an open pool method, applied over the remaining life of each instrument; b) a single set of economic forecast inputs for the reasonable and supportable period; c) an initial reasonable and supportable forecast period, which reflects management's expectations of losses based on forward-looking economic scenarios over that time; d) baseline lifetime loss rates adjusted for changes in macroeconomic conditions over the reasonable and supportable forecast period via a series of adjustment factors developed using a third-party developed and supported top-down statistical model suite that uses a set of relevant economic forecast inputs sourced from a leading global forecasting firm; e) a reversion period (after the reasonable and supportable forecast period) using a straight-line approach; f) a historical loss period which represents a full economic credit cycle (with the exception of equipment finance loans which will use a shorter time period due to circumstances unique to that segment); and g) expected prepayment rates estimated on more recent historical experience adjusted for refinance incentive, seasoning and burnout, as applicable. Based on several analyses performed in the third and fourth quarters of 2019, as well as an implementation analysis utilizing existing exposures and forecasts of macroeconomic conditions as of year-end, we currently expect the adoption of ASU 2016-13 will result in a combined 10% to 25% increase in our allowance for loan losses and our reserves for unfunded commitments. As we are currently finalizing the execution of our implementation controls and processes, the review of our most recent model run and assumptions including qualitative adjustments and purchased credit-deteriorated loans, the ultimate impact of the adoption of ASU 2016-13 as of January 1, 2020 could differ from our current expectation. The expected increase in the allowance for loan losses and reserve for unfunded commitments is a result of changing from an incurred loss model, which encompasses allowances for current known and inherent losses within the portfolio, to an expected loss model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. Furthermore, ASU 2016-13 will necessitate that we establish an allowance for expected credit losses for certain debt securities and other financial assets; however, we do not expect these allowances to be significant. The adoption of ASU 2016-13 is not expected to have a significant impact on our regulatory capital ratios.

Quarterly Financial Data

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

	Quarter Ended			
(in thousands, except per share amounts	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Total interest income	$ 63,177	$ 64,848	$ 64,626	$ 63,836
Total interest expense	14,571	15,650	15,944	14,288
Net interest income	48,606	49,198	48,682	49,548
Provision for loan losses	508	—	536	1,086
Noninterest income	5,723	6,389	6,700	7,984
Merger related expenses	2,860	318	—	—
Core deposit intangible amortization	304	301	288	289
Noninterest expense	30,820	31,067	29,275	31,234
Income before taxes	19,837	23,901	25,283	24,923
Income taxes	4,211	6,444	6,409	6,208
Net income	$ 15,626	$ 17,457	$ 18,874	$ 18,715
Earnings per share of common stock				
Basic	$ 0.31	$ 0.34	$ 0.37	$ 0.37
Diluted	0.31	$ 0.34	0.37	0.37

	Quarter Ended			
(in thousands, except per share amounts	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Total interest income	$ 50,145	$ 52,260	$ 54,282	$ 56,434
Total interest expense	7,909	8,767	10,658	12,228
Net interest income	42,236	43,493	43,624	44,206
Provision for loan losses	1,284	1,492	1,046	591
Noninterest income	5,334	5,709	5,639	5,628
Merger related expenses	—	—	—	464
Core deposit intangible amortization	157	153	142	142
Noninterest expense	26,980	27,421	27,651	28,057
Income before taxes	19,149	20,136	20,424	20,580
Income taxes	3,894	4,298	3,666	5,030
Net income	$ 15,255	$ 15,838	$ 16,758	$ 15,550
Earnings per share of common stock				
Basic	$ 0.32	$ 0.33	$ 0.35	$ 0.32
Diluted	0.32	$ 0.33	0.35	0.32

Item 7A - Quantitative and Qualitative Disclosures About Market Risk.

See Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 8 - Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Lakeland Bancorp, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Lakeland Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 2, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of the allowance for loan and lease losses related to loans collectively evaluated for impairment

As discussed in Notes 1 and 5 to the consolidated financial statements, the Company's allowance for loan and lease losses related to loans collectively evaluated for impairment ("collective reserve") was $39.7 million of a total ALLL of $40.0 million as of December 31, 2019. The Company estimated the collective reserve using a historical loss migration methodology that estimates the historical loss rates. Such loss rates are adjusted to reflect current conditions through the use of qualitative adjustments.

We identified the assessment of the collective reserve as a critical audit matter because it involved complex and subjective auditor judgment. Specifically, complex and subjective auditor judgment is required to assess the (1) methodologies used to derive the historical loss rates, (2) key assumptions including the loss migration periods and loss emergence periods, (3) development and evaluation of qualitative adjustments, and (4) internal risk ratings assigned to commercial loans.

The primary procedures we performed to address the critical audit matter included the following. We tested certain internal controls over the Company's collective reserve process, including controls related to the (1) development and approval of the collective reserve methodology and key assumptions, (2) periodic testing of internal risk ratings for commercial loans, and (3) determination of the qualitative adjustments. We tested the relevance of sources of internal and external data and key assumptions, including (1) the loss migration period, by evaluating if the loss data in the loss migration period is representative of the credit characteristics of the current portfolio and the sufficiency of loss data within the loss migration period, and (2) the loss emergence period, by evaluating the methodology used to develop the loss emergence period assumptions and testing observable loss data. We tested the qualitative framework and related adjustments by:

– assessing the maximum qualitative factor adjustment based on the highest losses during the loss migration period,
– evaluating the metrics, including the relevance of sources of data and assumptions, used to allocate the qualitative factor adjustments, and
– analyzing the determination of each qualitative factor adjustment.

We involved credit risk professionals with specialized industry knowledge and experience who assisted in evaluating the:

– Company’s collective reserve methodology for compliance with U.S. generally accepted accounting principles,
– loss migration period, by evaluating the methodology used to determine the historical loss rates in the loss migration period, and the loss emergence period, by evaluating the methodology used to develop the loss emergence period assumptions,
– framework used to develop the resulting qualitative adjustments and the effect on the collective reserve compared with relevant credit risk factors and consistency with credit trends, and
– internal risk ratings for commercial loans, by evaluating the financial performance of the borrower and the underlying collateral.

We evaluated trends in the collective reserve, including the qualitative factor adjustments, for consistency with trends in loan portfolio and credit performance.

KPMG LLP

We have served as the Company’s auditor since 2013.

Short Hills, New Jersey
March 2, 2020

Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	December 31, 2019	December 31, 2018
ASSETS		
Cash	$ 275,794	$ 205,199
Interest-bearing deposits due from banks	6,577	3,400
Total cash and cash equivalents	282,371	208,599
Investment securities, available for sale, at fair value	755,900	638,618
Equity securities, at fair value	16,473	15,921
Investment securities, held to maturity, at amortized cost with fair value of $124,904 at December 31, 2019 and $150,932 at December 31, 2018	123,975	153,646
Federal Home Loan Bank and other membership stock, at cost	22,505	13,301
Loans held for sale	1,743	1,113
Loans, net of deferred fees	5,137,823	4,456,733
Allowance for loan losses	(40,003)	(37,688)
Net loans	5,097,820	4,419,045
Premises and equipment, net	47,608	49,175
Operating lease right-of-use assets	18,282	—
Accrued interest receivable	16,832	16,114
Goodwill	156,277	136,433
Other identifiable intangible assets	4,314	1,768
Bank owned life insurance	112,392	110,052
Other assets	54,744	42,308
TOTAL ASSETS	$ 6,711,236	$ 5,806,093
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 1,124,121	$ 950,218
Savings and interest-bearing transaction accounts	3,298,854	2,913,414
Time deposits $250 thousand and under	652,144	589,737
Time deposits over $250 thousand	218,660	167,301
Total deposits	5,293,779	4,620,670
Federal funds purchased and securities sold under agreements to repurchase	328,658	233,905
Other borrowings	165,816	181,118
Subordinated debentures	118,220	105,027
Operating lease liabilities	19,814	—
Other liabilities	59,686	41,634
TOTAL LIABILITIES	5,985,973	5,182,354
STOCKHOLDERS' EQUITY:		
Common stock, no par value; authorized 100,000,000 shares; issued shares, 50,498,410 at December 31, 2019 and 47,486,250 at December 31, 2018	560,263	514,703
Retained earnings	162,752	116,874
Accumulated other comprehensive gain (loss)	2,248	(7,838)
TOTAL STOCKHOLDERS' EQUITY	725,263	623,739
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,711,236	$ 5,806,093

The accompanying notes are an integral part of these statements.

Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	Years Ended December 31, 2019	2018	2017
INTEREST INCOME			
Loans and fees	$ 233,535	$ 193,143	$ 172,342
Federal funds sold and interest-bearing deposits with banks	1,720	1,559	880
Taxable investment securities and other	19,722	16,710	14,987
Tax-exempt investment securities	1,510	1,709	1,995
TOTAL INTEREST INCOME	256,487	213,121	190,204
INTEREST EXPENSE			
Deposits	49,248	30,620	16,600
Federal funds purchased and securities sold under agreements to repurchase	1,471	471	198
Other borrowings	9,734	8,471	8,168
TOTAL INTEREST EXPENSE	60,453	39,562	24,966
NET INTEREST INCOME	196,034	173,559	165,238
Provision for loan losses	2,130	4,413	6,090
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	193,904	169,146	159,148
NONINTEREST INCOME			
Service charges on deposit accounts	11,205	10,584	10,740
Commissions and fees	6,230	5,542	4,858
Income on bank owned life insurance	2,740	3,256	2,354
Gain (loss) on equity securities	496	(583)	—
Gains on sales of loans	1,660	1,329	1,836
Gain on sales and calls of investment securities, net	—	—	2,524
Swap income	3,231	1,992	982
Other income	1,234	190	2,141
TOTAL NONINTEREST INCOME	26,796	22,310	25,435
NONINTEREST EXPENSE			
Salaries and employee benefits	77,287	68,595	61,166
Net occupancy expense	11,029	10,155	10,243
Furniture and equipment	8,681	8,297	8,269
FDIC insurance expense	431	1,608	1,577
Stationery, supplies and postage	1,599	1,625	1,797
Marketing expense	1,945	1,437	1,675
Data processing expense	4,913	3,609	1,993
Telecommunications expense	1,943	1,769	1,607
ATM and debit card expense	2,377	2,195	2,051
Core deposit intangible amortization	1,182	594	654
Other real estate and repossessed asset expense	256	158	181
Long-term debt prepayment fee	—	—	2,828
Merger related expenses	3,178	464	—
Other expenses	11,935	10,661	10,493
TOTAL NONINTEREST EXPENSE	126,756	111,167	104,534
Income before provision for income taxes	93,944	80,289	80,049
Provision for income taxes	23,272	16,888	27,469
NET INCOME	$ 70,672	$ 63,401	$ 52,580
PER SHARE OF COMMON STOCK:			
Basic earnings	$ 1.39	$ 1.32	$ 1.10
Diluted earnings	$ 1.38	$ 1.32	$ 1.09
Cash dividends paid	$ 0.49	$ 0.45	$ 0.40

The accompanying notes are an integral part of these statements.

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

(in thousands)	For the Years Ended December 31, 2019	2018	2017
NET INCOME	$ 70,672	$ 63,401	$ 52,580
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized gains (losses) on securities available for sale	10,718	(3,507)	(903)
Reclassification for securities gains included in net income	—	—	(1,640)
Unrealized (losses) gains on derivatives	(586)	41	37
Change in pension liability, net	(46)	20	(16)
Other comprehensive income (loss)	10,086	(3,446)	(2,522)
TOTAL COMPREHENSIVE INCOME	$ 80,758	$ 59,955	$ 50,058

The accompanying notes are an integral part of these statements.

Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2019, 2018 and 2017

(in thousands)	Common Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
At January 1, 2017	$ 510,861	$ 38,590	$ 593	$ 550,044
Net income	—	52,580	—	52,580
Other comprehensive loss, net of tax	—	—	(2,522)	(2,522)
Adjustment related to implementation of ASU 2018-02	—	420	(420)	—
Stock based compensation	2,325	—	—	2,325
Retirement of restricted stock	(773)	—	—	(773)
Exercise of stock options	321	—	—	321
Cash dividends, common stock	—	(18,853)	—	(18,853)
At December 31, 2017	$ 512,734	$ 72,737	$ (2,349)	$ 583,122
Cumulative adjustment for adoption of ASU 2016-01	—	2,043	(2,043)	—
January 1, 2018, as adjusted	512,734	74,780	(4,392)	583,122
Net income	—	63,401	—	63,401
Other comprehensive loss, net of tax	—	—	(3,446)	(3,446)
Stock based compensation	2,425	—	—	2,425
Retirement of restricted stock	(763)	—	—	(763)
Exercise of stock options	307	—	—	307
Cash dividends, common stock	—	(21,307)	—	(21,307)
At December 31, 2018	$ 514,703	$ 116,874	$ (7,838)	$ 623,739
Cumulative adjustment for adoption of ASU 842	—	125	—	125
January 1, 2019 as adjusted	$ 514,703	$ 116,999	$ (7,838)	$ 623,864
Net income	—	70,672	—	70,672
Other comprehensive income, net of tax	—	—	10,086	10,086
Stock based compensation	2,545	—	—	2,545
Issuance of stock for Highlands acquisition	43,417	—	—	43,417
Retirement of restricted stock	(715)	—	—	(715)
Exercise of stock options	313	—	—	313
Cash dividends, common stock	—	(24,919)	—	(24,919)
At December 31, 2019	$ 560,263	$ 162,752	$ 2,248	$ 725,263

The accompanying notes are an integral part of these statements.

Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended December 31, 2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 70,672	$ 63,401	$ 52,580
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premiums, discounts and deferred loan fees and costs	3,660	4,153	5,153
Depreciation and amortization	1,645	5,555	4,536
Amortization of intangible assets	1,182	594	654
Amortization of operating lease right-of-use assets	2,592	—	—
Provision for loan losses	2,130	4,413	6,090
Stock based compensation	2,545	2,425	2,325
Loans originated for sale	(57,605)	(49,748)	(60,783)
Proceeds from sales of loans held for sale	59,748	50,420	63,905
Gains on sales of securities	—	—	(2,524)
Gains on sales of loans held for sale	(1,660)	(1,329)	(1,836)
Gains on proceeds from bank owned life insurance policies	—	(421)	(109)
Change in market value of equity securities	(496)	583	—
Losses (gains) on other real estate and other repossessed assets	72	(338)	(646)
Loss (gain) on sale of premises and equipment	497	561	(838)
Long-term debt prepayment penalty	—	—	2,828
Deferred tax expense (benefit)	2,854	(13,571)	16,904
Excess tax benefits	189	318	587
(Increase) decrease in other assets	(15,986)	2,679	(25,065)
Increase in other liabilities	15,092	9,743	3,705
NET CASH PROVIDED BY OPERATING ACTIVITIES	87,131	79,438	67,466
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash acquired in acquisitions	13,454	—	—
Proceeds from repayments and maturities of available for sale securities	147,130	91,833	91,314
Proceeds from repayments and maturities of held to maturity securities	31,457	26,083	43,218
Proceeds from sales of equity securities	1,287	2,155	—
Proceeds from sales of available for sale securities	—	—	4,500
Purchase of available for sale securities	(211,503)	(110,370)	(140,258)
Purchase of held to maturity securities	(21,453)	(40,753)	(35,841)
Purchase of equity securities	(1,343)	(570)	(307)
Proceeds from redemptions of Federal Home Loan Bank stock	95,643	6,799	13,497
Purchases of Federal Home Loan Bank stock	(103,080)	(7,524)	(10,974)
Purchase of bank owned life insurance	—	—	(33,000)
Death benefit proceeds from bank owned life insurance policy	121	755	312
Net increase in loans	(252,441)	(310,256)	(289,914)
Proceeds from dispositions and sales of bank premises and equipment	1,827	697	1,638
Purchases of premises and equipment	(5,936)	(5,523)	(3,972)
Proceeds from sales of other real estate and other repossessed assets	860	4,116	4,638
NET CASH USED IN INVESTING ACTIVITIES	(303,977)	(342,558)	(355,149)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in deposits	264,279	252,329	276,537
Increase in federal funds purchased and securities sold under agreements to repurchase	94,753	108,969	68,582
Proceeds from other borrowings	46,260	60,003	306,184
Repayments of other borrowings	(89,353)	(70,752)	(377,183)
Exercise of stock options	313	307	321
Retirement of restricted stock	(715)	(763)	(773)
Dividends paid	(24,919)	(21,307)	(18,853)
NET CASH PROVIDED BY FINANCING ACTIVITIES	290,618	328,786	254,815
Net increase (decrease) in cash and cash equivalents	73,772	65,666	(32,868)
Cash and cash equivalents, beginning of year	208,599	142,933	175,801
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 282,371	$ 208,599	$ 142,933

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

(in thousands)	Years Ended December 31, 2019	2018	2017
Supplemental schedule of non-cash investing and financing activities:			
Cash paid during the period for income taxes	$ 15,944	$ 18,614	$ 27,423
Cash paid during the period for interest	59,949	38,679	24,571
Transfer of loans into other repossessed assets and other real estate owned	665	3,765	3,763
Initial recognition of operating lease right-of-use assets	18,651		
Initial recognition of operating lease liabilities	20,203		
Acquisitions:			
Non-cash assets acquired:			
Federal Home Loan Bank stock	1,767	—	—
Investment securities	22,734	—	—
Loans, including loans held for sale	426,118	—	—
Goodwill and other intangible assets, net	23,125	—	—
Other assets	9,304	—	—
Total non-cash assets acquired	483,048	—	—
Liabilities assumed:			
Deposits	409,638	—	—
Other borrowings	40,957	—	—
Other liabilities	2,490	—	—
Total liabilities assumed	453,085	—	—
Common stock issued for acquisitions	$ 43,417	—	—

The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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

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

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

Basis of Financial Statement Presentation

The accounting and reporting policies of the Company and its subsidiaries conform with accounting principles generally accepted in the United States of America ("U.S. GAAP") and predominant practices within the banking industry. The consolidated financial statements include the accounts of the Company, Lakeland, Lakeland NJ Investment Corp., Lakeland Investment Corp., Lakeland Equity, Inc. and Lakeland Preferred Equity, Inc. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made in the consolidated financial statements to conform with current year classifications.

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. The principal estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan losses and the valuation of the Company's investment securities portfolio. The policies regarding these estimates are discussed below.

The Company's chief operating decision maker is its Chief Executive Officer. All of the Company's financial services activities are interrelated and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, commercial lending is dependent upon the ability of Lakeland to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. The situation is also similar for consumer and residential mortgage lending. Moreover, the Company primarily operates in one market area, Northern and Central New Jersey, metropolitan New York and contiguous areas. Therefore, all significant operating decisions are based upon analysis of the Company as one operating segment or unit. Accordingly, the Company has determined that it has one operating segment and thus one reporting segment.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, cash items in the process of collection, amounts due from banks and federal funds sold with an original maturity of three months or less. A portion of Lakeland's cash on hand and on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Investment Securities

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

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

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

The Company has an equity securities portfolio, which consists of investments in other financial institutions for market appreciation purposes, and recognizes net unrealized gains and losses through net income.

Loans and Allowance for Loan Losses

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

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

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

The Company defines impaired loans as all non-accrual loans with recorded investments of $500,000 or greater. Impaired loans also include all loans modified as troubled debt restructurings. Loans are considered impaired when, based on current information and events, it is probable that Lakeland will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments.

Impairment is measured based on the present value of expected cash flows discounted at the loan’s effective interest rate, or as a practical expedient, Lakeland may measure impairment based on a loan’s observable market price, or the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. Regardless of the measurement method, Lakeland measures impairment based on the fair value of the collateral when it is determined that foreclosure is probable. Most of Lakeland’s impaired loans are collateral-dependent. Shortfalls in collateral or cash flows are charged-off or specifically reserved for in the period the short-fall is identified. Charge-offs are recommended by the Chief Credit Officer and approved by the Company's Board of Directors.

Lakeland groups impaired commercial loans under $500,000 into homogeneous pools and collectively evaluates them. Interest received on impaired loans may be recorded as interest income. However, if management is not reasonably certain that an impaired loan 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.

Purchased Credit-Impaired (“PCI”) loans are loans acquired through acquisition or purchased at a discount that is due, in part, to credit quality. PCI loans are accounted for in accordance with ASC Subtopic 310-30 and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the covered loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of the loans. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loans and results in an increase in yield on a prospective basis. Subsequent to acquisition date, further credit deterioration of a PCI loan will result in a valuation allowance recognized in the allowance for loan losses.

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

If a loan has been restructured, it will continue to be classified as a TDR until it is fully repaid or until it meets all of the following criteria: 1) the borrower is no longer experiencing financial difficulties, 2) the rate is not less than the rate provided for similar credit risk, 3) other terms are no less favorable than similar new debt and 4) no concessions were granted.

The allowance for loan losses is the estimated amount considered necessary to cover probable and reasonably estimable incurred losses inherent in the loan portfolio at the balance sheet date. In determining the allowance, we make significant estimates and judgments, and, therefore, have identified the allowance as a critical accounting policy. The allowance is established through a provision for loan losses charged against income. Loan principal considered to be uncollectible by management is charged against the allowance.

The allowance for loan losses has been determined in accordance with U.S. GAAP. We are responsible for the timely and periodic determination of the amount of the allowance required. We believe that our allowance is adequate to cover identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

The determination of the adequacy of the allowance for loan losses and the periodic provisioning for estimated losses included in the consolidated financial statements is the responsibility of management and the Board of Directors. Management performs a formal quarterly evaluation of the allowance for loan losses. This quarterly process is performed by the credit administration department and approved by the Chief Credit Officer. All supporting documentation with regard to the evaluation process is maintained by the credit administration department. Each quarter, the evaluation along with the supporting documentation is reviewed by the finance department before approval by the Chief Credit Officer. The allowance evaluation is then presented to an Allowance for Loan Losses committee, which gives final approval to the allowance evaluation before being presented to the Board of Directors for their approval.

The methodology employed for assessing the adequacy of the allowance consists of the following criteria:

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

The establishment of reserve amounts for pools of homogeneous loans is based upon the determination of historical loss rates, which are adjusted to reflect current conditions through the use of qualitative factors. The qualitative factors considered by the Company includes an evaluation of the results of the Company’s independent loan review function, the Company's reporting capabilities, the adequacy and expertise of Lakeland’s lending staff, underwriting policies, loss histories, trends in the portfolio, delinquency trends, economic and business conditions and capitalization rates. Since many of Lakeland’s loans depend on the sufficiency of collateral as a secondary source of repayment, any adverse trends in the real estate market could affect the underlying values available to protect Lakeland from losses.

Additionally, management determines the loss emergence periods for each loan segment, which are used to define loss migration periods and establish appropriate ranges for qualitative adjustments for each loan segment. 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 partial or full loan charge-off), and is determined based upon a study of our past loss experience by loan segment. All of the factors considered in the analysis of the adequacy of the allowance for loan losses may be subject to change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods.

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 if the loan is collateral dependent or charged off if deemed uncollectible. For a loan that is not collateral dependent, a reserve may be established for any shortfall in expected cash flows. Charge-offs are recommended by the Chief Credit Officer and approved by the Board of Directors.

Loans Held for Sale

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

Premises and Equipment, Net

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

Other Real Estate Owned and Other Repossessed Assets

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

Mortgage Servicing

Lakeland performs various servicing functions on loans owned by others. A fee, usually based on a percentage of the outstanding principal balance of the loan, is received for these services. At December 31, 2019 and 2018, Lakeland was servicing approximately $18.6 million and $19.9 million, respectively, of loans for others.

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

Mortgage Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. As of December 31, 2019 and 2018, Lakeland had originated mortgage servicing rights of $43,000 and $68,000, respectively.

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

Transfers of Financial Assets

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

Derivatives

Lakeland enters into interest rate swaps (“swaps”) with loan customers to provide a facility to mitigate the fluctuations in the variable rate on the respective loans. These swaps are matched in offsetting terms to swaps that Lakeland enters into with an outside third party. The swaps are reported at fair value in other assets or other liabilities. Lakeland’s swaps qualify as derivatives, but are not designated as hedging instruments, thus any net gain or loss resulting from changes in the fair value is recognized in swap income.

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

Cash flow hedges are used primarily to minimize the variability in cash flows of assets or liabilities, or forecasted transactions caused by interest rate fluctuations. Changes in the fair value of derivatives designated as cash flow hedges are recorded in accumulated other comprehensive income and are reclassified into the line item in the income statement in which the hedged item is recorded in the same period the hedged item affects earnings. Hedge ineffectiveness and gains and losses on the component of a derivative excluded in assessing hedge effectiveness are recorded in the same income statement line item.

Further discussion of Lakeland's financial derivatives is set forth in Note 19 to the Consolidated Financial Statements.

Earnings Per Share

Earnings per share is calculated on the basis of the weighted average number of common shares outstanding during the year. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

Employee Benefit Plans

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

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

Comprehensive Income (Loss)

The Company reports comprehensive income (loss) in addition to net income from operations. Other comprehensive income (loss) includes items recorded directly in equity such as unrealized gains or losses on securities available for sale as well as unrealized gains (losses) recorded on derivatives and benefit plans.

Goodwill and Other Identifiable Intangible Assets

Intangible assets resulting from acquisitions under the purchase method of accounting consist of goodwill and other intangible assets. Goodwill is not amortized and is subject to an annual assessment for impairment. The goodwill impairment analysis is generally a two-step test. However, under current accounting guidance, first we may assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under current accounting guidance, we are not required to calculate the fair value of a reporting unit if, based on a qualitative assessment, we determine that it was more likely than not that the unit's fair value was not less than its carrying amount. For the year ended December 31, 2019, we elected to perform step one of the two-step goodwill impairment test for our reporting unit.

Goodwill is allocated to Lakeland's reporting unit at the date goodwill is actually recorded. If the carrying value of a reporting unit exceeds its estimated fair value, a second step in the analysis is performed to determine the amount of impairment, if any. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying value of a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded equal to the excess amount in the current period earnings.

As of December 31, 2019, the carrying value of goodwill totaled $156.3 million. The Company performed its annual goodwill impairment test, as of November 30, 2019, and determined that the fair value of the Company's single reporting unit to be in excess of its carrying value. The Company will test goodwill for impairment between annual test dates if an event occurs or circumstances change that would indicate the fair value of the reporting unit is below its carrying amount. No events have occurred and no circumstances have changed since the annual impairment test date that would indicate the fair value of the reporting unit is below its carrying amount.

Bank Owned Life Insurance

Lakeland invests in bank owned life insurance ("BOLI"). BOLI involves the purchasing of life insurance by Lakeland on a chosen group of employees. Lakeland is the owner and beneficiary of the policies. At December 31, 2019 and 2018, Lakeland had $112.4 million and $110.1 million, respectively, in BOLI. Income earned on BOLI was $2.7 million, $3.3 million and $2.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. BOLI is accounted for using the cash surrender value method and is recorded at its net realizable value.

Income Taxes

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

Variable Interest Entities

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

The Company’s maximum exposure to the Trusts is $30.0 million at December 31, 2019, which is the Company’s liability to the Trusts and includes the Company’s investment in the Trusts.

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

NOTE 2 - ACQUISITIONS

On January 4, 2019, the Company completed its acquisition of Highlands Bancorp, Inc. ("Highlands"), a bank holding company headquartered in Vernon, New Jersey. Highlands was the parent of Highlands State Bank, which operated four branches in Sussex, Passaic and Morris Counties in New Jersey. This acquisition enabled the Company to broaden its presence in those counties. Effective as of the close of business on January 4, 2019, Highlands merged into the Company and Highlands State Bank merged into Lakeland. Pursuant to the merger agreement, the shareholders of Highlands received for each outstanding share of Highlands common stock that they owned at the effective time of the merger, 1.015 shares of Lakeland Bancorp, Inc. common stock. The Company issued 2,837,524 shares of its common stock in the merger. Outstanding Highlands options were paid out in cash at the difference between $14.71 and an average strike price of $8.09 for a total cash payment of $797,000.

The acquisition was accounted for under the acquisition method of accounting and accordingly, the assets acquired and liabilities assumed in the acquisition were recorded at their estimated fair values as of the acquisition date. Highlands' assets were recorded at their preliminary estimated fair values as of January 4, 2019 and Highlands' results of operations are included in the Company's Consolidated Statements of Income from that date forward.

The assets acquired and liabilities assumed in the acquisition were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition, including the use of third-party valuation specialists.

During the second quarter of 2019, the Company revised the estimated fair value of the acquired assets as of the acquisition date as the result of additional information obtained. The adjustment related to credit-impaired loans acquired in the acquisition that were recorded at fair value and subsequently accounted for in accordance with Accounting Standards Codification ("ASC") Subtopic 310-30 and resulted in a $1.7 million increase in goodwill.

As a result of new information obtained during the third quarter of 2019, about facts and circumstances that existed as of the acquisition date, the Company revised the estimated fair value on two Highlands branches acquired. The adjustment resulted in an increase in goodwill of $447,000.

The following table summarizes the estimated fair value of the acquired assets and liabilities assumed at the date of acquisition for Highlands.

(in thousands)		
Assets Acquired		
Cash and cash equivalents	$	13,454
Investment securities, available for sale		21,234
Investment securities, held to maturity		1,500
Federal Home Loan Bank stock		1,767
Loans held for sale		1,113
Loans		425,005
Premises and equipment		2,613
Goodwill		19,844
Identifiable intangible assets		3,728
Accrued interest receivable and other assets		6,244
Total assets acquired		496,502
Liabilities assumed		
Deposits		(409,638)
Other borrowings		(27,800)
Subordinated debt		(13,157)
Other liabilities		(2,490)
Total liabilities assumed		(453,085)
Net assets acquired	$	43,417

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

The following is a summary of the credit impaired loans acquired in the Highlands acquisition as of the closing date.

(in thousands)		
Contractually required principal and interest at acquisition	$	22,363
Contractual cash flows not expected to be collected (non-accretable difference)		7,129
Expected cash flows at acquisition		15,234
Interest component of expected cash flows (accretable difference)		1,431
Fair value of acquired loans	$	13,803

The core deposit intangible totaled $3.7 million and is being amortized over its estimated useful life of approximately ten years using an accelerated method. Goodwill totaled $19.8 million and will be evaluated annually for impairment. The goodwill is not deductible for tax purposes.

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

Direct costs related to the Highlands acquisition were expensed as incurred. During the years ended December 31, 2019 and 2018, the Company incurred $3.2 million and $464,000, respectively, of merger and acquisition integration-related expenses, which have been separately stated in the Company's Consolidated Statements of Income. There were no merger or acquisition integration-related expenses in 2017.

NOTE 3 - EARNINGS PER SHARE

The Company uses the two class method to compute earnings per common share. Participating securities include non-vested restricted stock and non-vested restricted stock units. The following tables present the computation of basic and diluted earnings per share for the periods presented.

Year Ended December 31, 2019	Income (Numerator)	Shares (Denominator)	Per Share Amount
(in thousands, except per share amounts)			
Basic earnings per share			
Net income available to common shareholders	$ 70,672	50,477	$ 1.40
Less: earnings allocated to participating securities	(596)	—	(0.01)
Net income available to common shareholders	70,076	50,477	1.39
Effect of dilutive securities			
Stock options and restricted stock	—	165	(0.01)
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	$ 70,076	50,642	$ 1.38

Year Ended December 31, 2018	Income (Numerator)	Shares (Denominator)	Per Share Amount
(in thousands, except per share amounts)			
Basic earnings per share			
Net income available to common shareholders	$ 63,401	47,578	$ 1.33
Less: earnings allocated to participating securities	(582)	—	(0.01)
Net income available to common shareholders	62,819	47,578	1.32
Effect of dilutive securities			
Stock options and restricted stock	—	188	—
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	$ 62,819	47,766	$ 1.32

Year Ended December 31, 2017	Income (Numerator)	Shares (Denominator)	Per Share Amount
(in thousands, except per share amounts)			
Basic earnings per share			
Net income available to common shareholders	$ 52,580	47,438	$ 1.11
Less: earnings allocated to participating securities	(480)	—	(0.01)
Net income available to common shareholders	52,100	47,438	1.10
Effect of dilutive securities			
Stock options and restricted stock	—	236	(0.01)
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	$ 52,100	47,674	$ 1.09

There were no antidilutive options to purchase common stock to be excluded from the above computations.

NOTE 4 - INVESTMENT SECURITIES

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

	December 31, 2019				December 31, 2018			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AVAILABLE FOR SALE								
U.S. Treasury and U.S. government agencies	$ 135,361	$ 722	$ (436)	$ 135,647	$ 143,495	$ —	$ (2,568)	$ 140,927
Mortgage-backed securities, residential	500,245	3,185	(1,551)	501,879	434,208	779	(8,843)	426,144
Mortgage-backed securities, multifamily	48,675	633	(123)	49,185	21,087	67	(204)	20,950
Obligations of states and political subdivisions	58,979	1,077	(35)	60,021	45,951	140	(586)	45,505
Debt securities	9,000	168	—	9,168	5,000	92	—	5,092
Total	$ 752,260	$ 5,785	$ (2,145)	$ 755,900	$ 649,741	$ 1,078	$ (12,201)	$ 638,618

	December 31, 2019				December 31, 2018			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
HELD TO MATURITY								
U.S. government agencies	$ 31,335	$ 182	$ (8)	$ 31,509	$ 33,025	$ —	$ (677)	$ 32,348
Mortgage-backed securities, residential	76,229	734	(176)	76,787	75,859	169	(1,838)	74,190
Mortgage-backed securities, multifamily	1,750	4	(2)	1,752	1,853	—	(35)	1,818
Obligations of states and political subdivisions	12,161	195	—	12,356	37,909	113	(328)	37,694
Debt securities	2,500	—	—	2,500	5,000	—	(118)	4,882
Total	$ 123,975	$ 1,115	$ (186)	$ 124,904	$ 153,646	$ 282	$ (2,996)	$ 150,932

During the fourth quarter of 2019, the Company early adopted ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging and Topic 825, Financial Instruments, and reclassified securities with a book value of $20.8 million and an unrealized gain of $291,000 from held to maturity to securities available for sale. ASU 2019-04 makes clarifications and corrections to the application of the guidance contained in each of the amended topics.

The following table lists contractual maturities of investment securities classified as available for sale and held to maturity at December 31, 2019. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 29,733	$ 29,786	$ 7,321	$ 7,328
Due after one year through five years	105,745	106,611	31,102	31,425
Due after five years through ten years	52,534	53,385	6,815	6,852
Due after ten years	15,328	15,054	758	760
	203,340	204,836	45,996	46,365
Mortgage-backed securities	548,920	551,064	77,979	78,539
Total securities	$ 752,260	$ 755,900	$ 123,975	$ 124,904

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

	Years Ended December 31,		
(in thousands)	2019	2018	2017
Sale proceeds	$ —	$ —	$ 4,500
Gross gains	—	—	2,539
Gross losses	—	—	(15)

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

Securities with a carrying value of approximately $581.1 million and $476.3 million at December 31, 2019 and 2018, respectively, were pledged to secure public deposits and for other purposes required by applicable laws and regulations.

The following tables indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018:

December 31, 2019	Less than 12 Months		12 Months or Longer		Total		
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
AVAILABLE FOR SALE							
U.S. Treasury and U.S. government agencies	$ 11,625	$ 39	$ 41,617	$ 397	11	$ 53,242	$ 436
Mortgage-backed securities, residential	125,782	561	99,489	990	86	225,271	1,551
Mortgage-backed securities, multifamily	7,651	118	4,878	5	3	12,529	123
Obligations of states and political subdivisions	373	2	6,559	33	5	6,932	35
Total	$ 145,431	$ 720	$ 152,543	$ 1,425	105	$ 297,974	$ 2,145
HELD TO MATURITY							
U.S. government agencies	$ 3,195	$ 6	$ 5,102	$ 2	2	$ 8,297	$ 8
Mortgage-backed securities, residential	12,462	46	10,592	130	16	23,054	176
Mortgage-backed securities, multifamily	—	—	998	2	1	998	2
Total	$ 15,657	$ 52	$ 16,692	$ 134	19	$ 32,349	$ 186

December 31, 2018	Less than 12 Months		12 Months or Longer		Total		
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of securities	Fair Value	Unrealized Losses
AVAILABLE FOR SALE							
U.S. Treasury and U.S. government agencies	$ 20,588	$ 216	$ 120,338	$ 2,352	27	$ 140,926	$ 2,568
Mortgage-backed securities, residential	10,119	58	316,851	8,785	139	326,970	8,843
Mortgage-backed securities, multifamily	1,977	2	12,911	202	4	14,888	204
Obligations of states and political subdivisions	1,289	2	26,522	584	50	27,811	586
Total	$ 33,973	$ 278	$ 476,622	$ 11,923	220	$ 510,595	$ 12,201
HELD TO MATURITY							
U.S. government agencies	$ —	$ —	$ 32,348	$ 677	6	$ 32,348	$ 677
Mortgage-backed securities, residential	8,325	59	53,761	1,779	36	62,086	1,838
Mortgage-backed securities, multifamily	—	—	1,818	35	2	1,818	35
Obligations of states and political subdivisions	1,764	8	15,580	320	27	17,344	328
Debt securities	3,882	118	—	—	1	3,882	118
Total	$ 13,971	$ 185	$ 103,507	$ 2,811	72	$ 117,478	$ 2,996

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

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

- The Company's ability and intent to hold the securities, including an evaluation of the need to sell the security to meet certain liquidity measures, or whether the Company has sufficient levels of cash to hold the identified security in order to recover the entire amortized cost of the security;
- The financial condition of the underlying issuer;
- The credit ratings of the underlying issuer and if any changes in the credit rating have occurred;
- The length of time the security's fair value has been less than amortized cost; and
- Adverse conditions related to the security or its issuer if the issuer has failed to make scheduled payments or other factors.

If the above factors indicate an additional analysis is required, management will perform a discounted cash flow analysis evaluating the security.

Equity securities at fair value

The Company has an equity securities portfolio, which consists of investments in other financial institutions for market appreciation purposes and investments in Community Reinvestment funds. The market value of these investments was $16.5 million and $15.9 million as of December 31, 2019 and 2018, respectively. Upon implementation of Accounting Standards Update 2016-01 - Financial Instruments ("ASU 2016-01"), the Company made a cumulative adjustment of $2.0 million from other comprehensive income to retained earnings as of January 1, 2018. For the year ended December 31, 2019, the Company recorded proceeds from sales of equity securities of $1.3 million. In the twelve months ended December 31, 2019, the Company recorded $496,000 in market value gains on equity securities in noninterest income as compared to market value losses on equity securities of $583,000 during 2018.

As of December 31, 2019, the equity investments in other financial institutions and Community Reinvestment funds had a market value of $1.7 million and $14.8 million, respectively. The Community Reinvestment funds include $3.5 million that are primarily invested in community development loans that are guaranteed by the Small Business Administration ("SBA"). Because the funds are primarily guaranteed by the federal government there are minimal changes in market value between accounting periods. These funds can be redeemed within 60 days notice at the net asset value less unpaid management fees with the approval of the fund manager. As of December 31, 2019, the net amortized cost equaled the market value of the investment. There are no unfunded commitments related to these investments.

The Community Reinvestment funds include $11.3 million as of December 31, 2019, that are primarily invested in government guaranteed loans, mortgage-backed securities, small business loans and other instruments supporting affordable housing and economic development. The Company may redeem these funds at the net asset value calculated at the end of the current business day less any unpaid management fees. There are no restrictions on redemptions for the holdings in these investments other than the notice required by the fund manager. There are no unfunded commitments related to this investment.

NOTE 5 - LOANS AND OTHER REAL ESTATE

The following sets forth the composition of Lakeland's loan portfolio:

	December 31,	
(in thousands)	2019	2018
Commercial, secured by real estate	$ 3,589,593	$ 3,057,779
Commercial, industrial and other	431,934	336,735
Equipment finance	111,076	87,925
Real estate - residential mortgage	335,191	329,854
Real estate - construction	335,169	319,545
Home equity and consumer	337,977	328,609
Total loans	5,140,940	4,460,447
Less deferred fees	(3,117)	(3,714)
Loans, net of deferred fees	$ 5,137,823	$ 4,456,733

At December 31, 2019 and December 31, 2018, Lakeland had $1.3 billion and $1.2 billion in loans pledged for potential borrowings at the Federal Home Loan Bank of New York ("FHLB"). As of December 31, 2019 and 2018, home equity and consumer loans included overdraft deposit balances of $789,000 and $452,000, respectively.

Purchased Credit Impaired Loans

The following sets forth the carrying value of the purchased credit impaired loans ("PCI") loans acquired in mergers:

	December 31,	
(in thousands)	2019	2018
<u>Acquisition</u>		
Highlands	$ 8,194	$ —
Pascack Community Bank	113	157
Harmony Bank	441	495
Total	$ 8,748	$ 652

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

	Years Ended December 31,	
(in thousands)	2019	2018
Balance, beginning of period	$ 81	$ 129
Acquisitions	1,431	—
Accretion	(1,236)	(182)
Net reclassification non-accretable difference	87	134
Balance, end of period	$ 363	$ 81

Portfolio Segments

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

- Commercial, secured by real estate - consists of commercial mortgage loans secured by owner occupied properties and non-owner occupied properties. The loans secured by owner occupied properties involve a variety of property types to conduct the borrower’s operations. The primary source of repayment for this type of loan is the cash flow from the business and is based upon the borrower’s financial health and the ability of the borrower and the business to repay. The loans secured by non-owner occupied properties involve investment properties for warehouse, retail, office space, etc., with a history of occupancy and cash flow. This commercial real estate category contains mortgage loans to the developers and owners of commercial real estate where the borrower intends to operate or sell the property at a profit and use the income stream or proceeds from the sale to repay the loan.
- Commercial, industrial and other - are loans made to provide funds for equipment and general corporate needs. Repayment of a loan primarily uses the funds obtained from the operation of the borrower’s business. Commercial loans also include lines of credit that are utilized to finance a borrower’s short-term credit needs and/or to finance a percentage of eligible receivables and inventory.
- Equipment finance - includes a small portfolio of equipment leases, which consists of leases primarily for essential equipment used by small to medium sized businesses.
- Real estate - residential mortgage - contains permanent mortgage loans principally to consumers secured by residential real estate. Residential real estate loans are evaluated for the adequacy of repayment sources at the time of approval, based upon measures including credit scores, debt-to-income ratios, and collateral values. Loans may be either conforming or non-conforming.
- Real estate - construction - construction loans, as defined, are intended to finance the construction of commercial properties and include loans for the acquisition and development of land. Construction loans represent a higher degree of risk than permanent real estate loans and may be affected by a variety of factors such as the borrower’s ability to control costs and adhere to time schedules and the risk that constructed units may not be absorbed by the market within the anticipated time frame or at the anticipated price. The loan commitment on these loans often includes an interest reserve to pay interest charges on the outstanding balance of the loan.

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

Non-accrual and Past Due Loans

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

	At December 31,	
(in thousands)	2019	2018
Commercial, secured by real estate	$ 12,314	$ 7,192
Commercial, industrial and other	1,539	1,019
Equipment finance	284	501
Real estate - residential mortgage	3,428	1,986
Real estate - construction	967	—
Home equity and consumer	2,606	1,432
Total non-accrual loans	21,138	12,130
Other real estate and other repossessed assets	563	830
Total non-performing assets	$ 21,701	$ 12,960
Troubled debt restructurings, still accruing	$ 5,650	$ 9,293

Non-accrual loans included $1.6 million and $3.6 million of TDRs for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the Company had $2.0 million and $1.5 million, respectively, in residential mortgages and consumer home equity loans included in total non-accrual loans that were in the process of foreclosure.

An age analysis of past due loans, excluding PCI loans which are accounted for on a pool basis, segregated by class of loans as of December 31, 2019 and 2018, is as follows:

December 31, 2019	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans	Recorded Investment Greater than 89 Days and Still Accruing
(in thousands)							
Commercial, secured by real estate	$ 3,578	$ 1,200	$ 9,702	$ 14,480	$ 3,569,008	$ 3,583,488	$ —
Commercial, industrial and other	353	71	1,064	1,488	429,502	430,990	—
Equipment finance	166	80	284	530	110,546	111,076	—
Real estate - residential mortgage	1,138	251	2,075	3,464	331,337	334,801	—
Real estate - construction	—	—	967	967	333,418	334,385	—
Home equity and consumer	1,573	287	1,533	3,393	334,059	337,452	—
	$ 6,808	$ 1,889	$ 15,625	$ 24,322	$ 5,107,870	$ 5,132,192	$ —

December 31, 2018	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans	Recorded Investment Greater than 89 Days and Still Accruing
(in thousands)							
Commercial, secured by real estate	$ 1,477	$ 639	$ 2,080	$ 4,196	$ 3,052,931	$ 3,057,127	$ —
Commercial, industrial and other	173	243	750	1,166	335,569	336,735	—
Equipment finance	533	13	501	1,047	86,878	87,925	—
Real estate - residential mortgage	743	111	1,776	2,630	327,224	329,854	—
Real estate - construction	—	—	—	—	319,545	319,545	—
Home equity and consumer	1,917	216	850	2,983	325,626	328,609	—
	$ 4,843	$ 1,222	$ 5,957	$ 12,022	$ 4,447,773	$ 4,459,795	$ —

Impaired Loans

Lakeland's policy regarding impaired loans is discussed in Note 1 – Summary of Accounting Policies – Loans and Allowance for Loan Losses. The Company defines impaired loans as all non-accrual loans with recorded investments of $500,000 or greater. Impaired loans also includes all loans modified in troubled debt restructurings, but excludes PCI loans. The following tables represent the Company's impaired loans at December 31, 2019, 2018 and 2017.

December 31, 2019	Recorded Investment in Impaired Loans	Contractual Unpaid Principal Balance	Related Allowance	Interest Income Recognized	Average Investment in Impaired Loans
(in thousands)					
Loans without related allowance:					
Commercial, secured by real estate	$ 12,478	$ 12,630	$ —	$ 164	$ 10,386
Commercial, industrial and other	1,391	1,381	—	16	1,334
Equipment finance	—	—	—	—	—
Real estate - residential mortgage	803	815	—	—	233
Real estate - construction	1,663	1,661	—	2	82
Home equity and consumer	—	—	—	—	—
Loans with related allowance:					
Commercial, secured by real estate	3,470	3,706	228	190	4,554
Commercial, industrial and other	113	113	5	6	113
Equipment finance	23	23	10	—	21
Real estate - residential mortgage	1,512	1,682	104	19	926
Real estate - construction	—	—	—	—	—
Home equity and consumer	671	765	5	29	693
Total:					
Commercial, secured by real estate	$ 15,948	$ 16,336	$ 228	$ 354	$ 14,940
Commercial, industrial and other	1,504	1,494	5	22	1,447
Equipment finance	23	23	10	—	21
Real estate - residential mortgage	2,315	2,497	104	19	1,159
Real estate - construction	1,663	1,661	—	2	82
Home equity and consumer	671	765	5	29	693
	$ 22,124	$ 22,776	$ 352	$ 426	$ 18,342

December 31, 2018	Recorded Investment in Impaired Loans	Contractual Unpaid Principal Balance	Related Allowance	Interest Income Recognized	Average Investment in Impaired Loans
(in thousands)					
Loans without related allowance:					
Commercial, secured by real estate	$ 9,284	$ 9,829	$ —	$ 188	$ 7,369
Commercial, industrial and other	1,151	1,449	—	19	1,834
Equipment finance	301	597	—	—	376
Real estate - residential mortgage	—	—	—	4	242
Real estate - construction	—	—	—	—	726
Home equity and consumer	—	—	—	—	—
Loans with related allowance:					
Commercial, secured by real estate	7,270	7,597	307	317	7,594
Commercial, industrial and other	209	209	7	12	209
Equipment finance	30	30	14	—	19
Real estate - residential mortgage	730	884	4	20	745
Real estate - construction	—	—	—	—	—
Home equity and consumer	727	765	6	32	898
Total:					
Commercial, secured by real estate	$ 16,554	$ 17,426	$ 307	$ 505	$ 14,963
Commercial, industrial and other	1,360	1,658	7	31	2,043
Equipment finance	331	627	14	—	395
Real estate - residential mortgage	730	884	4	24	987
Real estate - construction	—	—	—	—	726
Home equity and consumer	727	765	6	32	898
	$ 19,702	$ 21,360	$ 338	$ 592	$ 20,012

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

Interest which would have been accrued on impaired loans during 2019, 2018 and 2017 was $1.0 million, $1.1 million and $1.5 million, respectively.

Credit Quality Indicators

The class of loans are determined by internal risk rating. Management closely and continually monitors the quality of its loans and assesses the quantitative and qualitative risks arising from the credit quality of its loans. It is the policy of Lakeland to require that a Credit Risk Rating be assigned to all commercial loans and loan commitments. The Credit Risk Rating System has been developed by management to provide a methodology to be used by Loan Officers, Department Heads and Senior Management in identifying various levels of credit risk that exist within Lakeland's loan portfolios. The risk rating system assists Senior Management in evaluating Lakeland's loan portfolio, analyzing trends and determining the proper level of required reserves to be recommended to the Company's Board of Directors. In assigning risk ratings, management considers, among other things, a borrower's debt service coverage, earnings strength, loan to value ratios, industry conditions and economic conditions. Management categorizes loans and commitments into a one (1) to nine (9) numerical structure with rating 1 being the strongest rating and rating 9 being the weakest. Ratings 1 through 5W are considered "Pass" ratings. "Pass" ratings on loans are given to loans that management considers to be of acceptable or better quality. A rating of 5W, or "Watch" is a loan that requires more than the usual amount of monitoring due to declining earnings, strained cash flow, increasing leverage and/or weakening market. These borrowers generally have limited additional debt capacity and modest coverage and average or below average asset quality, margins and market share. Rating 6, "Other Assets Especially Mentioned" is used for loans exhibiting identifiable credit weakness which if not checked or corrected could weaken the loan quality or inadequately protect the bank's credit position at some future date. Rating 7, "Substandard," is used on loans that are inadequately protected by the current sound worth and paying capacity of the obligors or of the collateral pledged, if any. A substandard loan has a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt. Rating 8, "Doubtful," are loans that exhibit all of the weaknesses inherent in substandard loans, but have the added characteristics that the weaknesses make collection or liquidation in full improbable on the basis of existing facts. Rating 9, "Loss," is a rating for loans or portions of loans that are considered uncollectible and of such little value that their continuance as bankable loans is not warranted.

The following table shows Lakeland's commercial loan portfolio as of December 31, 2019 and 2018, by the risk ratings discussed above:

December 31, 2019

(in thousands)	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Real Estate - Construction	Total Commercial Loans
RISK RATING				
1	$ —	$ 898	$ —	$ 898
2	—	17,988	—	17,988
3	74,072	39,112	—	113,184
4	965,825	107,376	17,941	1,091,142
5	2,332,863	215,975	307,824	2,856,662
5W - Watch	100,347	30,192	6,959	137,498
6 - Other assets especially mentioned	55,438	11,328	—	66,766
7 - Substandard	61,048	9,065	2,445	72,558
8 - Doubtful	—	—	—	—
9 - Loss	—	—	—	—
Total	$ 3,589,593	$ 431,934	$ 335,169	$ 4,356,696

December 31, 2018 (in thousands)	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Real Estate - Construction	Total Commercial Loans
RISK RATING				
1	$ —	$ 1,119	$ —	$ 1,119
2	—	18,462	—	18,462
3	69,995	36,367	—	106,362
4	933,577	91,145	17,375	1,042,097
5	1,910,423	168,474	297,625	2,376,522
5W - Watch	61,626	7,798	3,493	72,917
6 - Other assets especially mentioned	38,844	2,033	—	40,877
7 - Substandard	43,314	11,337	1,052	55,703
8 - Doubtful	—	—	—	—
9 - Loss	—	—	—	—
Total	$ 3,057,779	$ 336,735	$ 319,545	$ 3,714,059

This table does not include residential mortgage loans, consumer loans, or equipment finance loans because they are evaluated on their payment status as pass or substandard, which is defined as non-accrual or past due 90 days or more.

Allowance for Loan Losses

The following table details activity in the allowance for loan losses by portfolio segment and the related recorded investment in loans for the years ended December 31, 2019 and 2018:

December 31, 2019	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Equipment Finance	Real Estate - Residential Mortgage	Real Estate - Construction	Home Equity and Consumer	Total
(in thousands)							
Beginning balance	$ 27,881	$ 1,742	$ 987	$ 1,566	$ 3,015	$ 2,497	$ 37,688
Charge-offs	(544)	(645)	(414)	(50)	—	(283)	(1,936)
Recoveries	251	1,100	332	66	126	246	2,121
Provision	1,362	1,092	52	143	(469)	(50)	2,130
Ending balance	$ 28,950	$ 3,289	$ 957	$ 1,725	$ 2,672	$ 2,410	$ 40,003
Allowance for Loan Losses							
Ending balance: Individually evaluated for impairment	$ 228	$ 5	$ 10	$ 104	$ —	$ 5	$ 352
Ending balance: Collectively evaluated for impairment	28,722	3,284	947	1,621	2,672	2,405	39,651
Ending balance	$ 28,950	$ 3,289	$ 957	$ 1,725	$ 2,672	$ 2,410	$ 40,003
Loans							
Ending balance: Individually evaluated for impairment	$ 15,948	$ 1,504	$ 23	$ 2,315	$ 1,663	$ 671	$ 22,124
Ending balance: Collectively evaluated for impairment	3,567,540	429,486	111,053	332,486	332,722	336,781	5,110,068
Ending balance: Loans acquired with deteriorated credit quality	6,105	944	—	390	784	525	8,748
Ending balance (1)	$ 3,589,593	$ 431,934	$ 111,076	$ 335,191	$ 335,169	$ 337,977	$ 5,140,940

(1) Excludes deferred fees

December 31, 2018	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Equipment Finance	Real Estate - Residential Mortgage	Real Estate - Construction	Home Equity and Consumer	Total
(in thousands)							
Beginning balance	$ 25,704	$ 2,313	$ 630	$ 1,557	$ 2,731	$ 2,520	$ 35,455
Charge-offs	(421)	(1,452)	(507)	(131)	(248)	(588)	(3,347)
Recoveries	468	317	23	10	17	332	1,167
Provision	2,130	564	841	130	515	233	4,413
Ending balance	$ 27,881	$ 1,742	$ 987	$ 1,566	$ 3,015	$ 2,497	$ 37,688
Allowance for Loan Losses							
Ending balance: Individually evaluated for impairment	$ 307	$ 7	$ 14	$ 4	$ —	$ 6	$ 338
Ending balance: Collectively evaluated for impairment	27,574	1,735	973	1,562	3,015	2,491	37,350
Ending balance	$ 27,881	$ 1,742	$ 987	$ 1,566	$ 3,015	$ 2,497	$ 37,688
Loans							
Ending balance: Individually evaluated for impairment	$ 16,554	$ 1,360	$ 331	$ 730	$ —	$ 727	$ 19,702
Ending balance: Collectively evaluated for impairment	3,040,573	335,375	87,594	329,124	319,545	327,882	4,440,093
Ending balance: Loans acquired with deteriorated credit quality	652	—	—	—	—	—	652
Ending balance (1)	$ 3,057,779	$ 336,735	$ 87,925	$ 329,854	$ 319,545	$ 328,609	$ 4,460,447

(1) Excludes deferred fees

Lakeland also maintains a reserve for unfunded lending commitments which is included in other liabilities. This reserve was $1.8 million and $2.3 million as of December 31, 2019 and December 31, 2018, respectively. Lakeland analyzes the adequacy of the reserve for unfunded lending commitments in conjunction with its analysis of the adequacy of the allowance for loan losses. For more information on this analysis, see “Risk Elements” in Management’s Discussion and Analysis.

Troubled Debt Restructurings

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

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

	For the Year Ended December 31, 2019			For the Year Ended December 31, 2018		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, secured by real estate	—	$ —	$ —	5	$ 3,348	$ 3,348
Commercial, industrial and other	—	—	—	1	950	950
Equipment finance	—	—	—	1	15	15
Real estate - construction	1	694	694	—	—	—
Home equity and consumer	2	83	83	—	—	—
	3	$ 777	$ 777	7	$ 4,313	$ 4,313

The following table presents loans modified as TDRs within the previous twelve months from December 31, 2019 and 2018 that have defaulted during the subsequent twelve months:

(dollars in thousands)	For the Year Ended December 31, 2019 Number of Contracts	For the Year Ended December 31, 2019 Recorded Investment	For the Year Ended December 31, 2018 Number of Contracts	For the Year Ended December 31, 2018 Recorded Investment
Commercial, secured by real estate	—	$ —	1	$ 171
Home equity and consumer	2	83	—	—
	2	$ 83	1	$ 171

Related Party Loans

Lakeland has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on similar terms, including interest rates and collateral, as those prevailing for comparable transactions with other borrowers not related to Lakeland. At December 31, 2019 and 2018, loans to these related parties amounted to $55.4 million and $53.1 million, respectively. There were new loans of $21.4 million to related parties and repayments of $19.1 million from related parties in 2019.

Mortgages Held for Sale

Residential mortgages originated by the bank and held for sale in the secondary market are carried at the lower of cost or fair market value. Fair value is generally determined by the value of purchase commitments on individual loans. Losses are recorded as a valuation allowance and charged to earnings. As of December 31, 2019, Lakeland had $1.7 million in mortgages held for sale compared to $1.1 million as of December 31, 2018.

Equipment Finance Receivables

Future minimum payments of equipment finance receivables at December 31, 2019 are expected as follows:

(in thousands)	
2020	$ 36,290
2021	30,448
2022	23,029
2023	14,767
2024	5,616
Thereafter	926
	$ 111,076

Other Real Estate and Other Repossessed Assets

At December 31, 2019, Lakeland had other real estate of $563,000, consisting of residential property acquired as a result of foreclosure proceedings or through a deed in lieu of foreclosure. Lakeland held no other repossessed assets at December 31, 2019. At December 31, 2018, Lakeland had other real estate of $830,000 and no other repossessed assets. The other real estate that Lakeland held at December 31, 2018 consisted of $702,000 in residential property acquired as a result of foreclosure proceedings or through a deed in lieu of foreclosure. For the years ended December 31, 2019, 2018 and 2017, Lakeland had writedowns of $153,000, $70,000 and $98,000, respectively, on other real estate and other repossessed assets which are included in other real estate and repossessed asset expense in the Consolidated Statement of Income.

NOTE 6 - PREMISES AND EQUIPMENT

(in thousands)	Estimated Useful Lives	December 31, 2019		December 31, 2018	
Land	Indefinite	$	10,356	$	10,471
Buildings and building improvements	10 to 50 years		42,481		47,006
Leasehold improvements	10 to 25 years		14,260		12,880
Furniture, fixtures and equipment	2 to 30 years		31,728		27,858
			98,825		98,215
Less accumulated depreciation and amortization			51,217		49,040
		$	47,608	$	49,175

Depreciation expense was $5.9 million, $5.3 million and $5.0 million for the years ended December 31, 2019, 2018 and 2017, respectively.

NOTE 7 – LEASES

The Company leases certain premises and equipment under operating leases. Portions of certain properties are subleased for terms extending through 2024. In February 2016, FASB issued Update 2016-02, Topic 842, Leases, accounting guidance that requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. Lessor accounting remains largely unchanged under the new guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period, with early adoption permitted. A modified retrospective approach must be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company retained the services of a software provider to aid in its implementation. In the third quarter of 2018, the FASB issued updates which included targeted improvements to the leasing guidance that were intended to reduce costs and ease implementation of the leases standard. The improvements include an optional transition method to adopt the new leases standard where the entity could initially apply the new leases standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for comparative periods presented in the financial statements in which it adopts the new leases standard, will continue to be in accordance with Accounting Standards Codification ("ASC") Topic 840, Leases. An entity that adopts this additional transition method must provide the required disclosures for all periods that continue to be in accordance with the current ASC 840. The lease update also includes a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for these components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance and both of the following conditions are met: 1) the timing and pattern of transfer of the nonlease component(s) and associated lease component are the same, and 2) the lease component, if accounted for separately, would be classified as an operating lease. Management used the optional transition method discussed above and also used the practical expedient to account for non-lease components with the associated lease component as a single component assuming the appropriate conditions were met. The FASB issued further clarification of the standard and addressed implementation and disclosure requirements.

With the adoption of this update on January 1, 2019, the Company recorded an operating lease right-of-use asset of $18.7 million, a corresponding liability of $20.2 million and a cumulative adjustment to retained earnings of $125,000.

At December 31, 2019, the Company had lease liabilities totaling $19.8 million and right-of-use assets totaling $18.3 million related to these leases. The calculated amount of the right-of-use asset and lease liabilities are impacted by the length of the lease term and the discount rate used to calculate the present value of the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the right-of-use asset and lease liability. The Company uses its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

For the year ended December 31, 2019, the weighted average remaining lease term for operating leases was 10.32 years and the weighted average discount rate used in the measurement of operating lease liabilities was 3.51%.

As the Company elected not to separate lease and non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as common area maintenance and utilities. Lease costs were as follows:

(in thousands)		Year Ended December 31, 2019
Operating lease cost	$	3,293
Short-term lease cost		—
Variable lease cost		133
Sublease income		(122)
Net lease cost	$	3,304

Rent expense for years ended December 31, 2018 and 2017, prior to the adoption of ASU 2016-02, was $3.0 million and $3.1 million, respectively.

The table below presents other information on the Company's operating leases for the year ended December 31, 2019:

(in thousands)		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	2,654
Right-of-use asset obtained in exchange for new operating lease liabilities		1,748

There were no sale and leaseback transactions, leveraged leases or lease transactions with related parties during the year ended December 31, 2019. At December 31, 2019, the Company had no leases that had not yet commenced.

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liability at December 31, 2019 is as follows:

(in thousands)		
Within one year	$	3,300
After one year but within two years		3,057
After two years but within three years		2,626
After three years but within four years		2,291
After four years but within five years		2,174
After 5 years		10,562
Total undiscounted cash flows		24,010
Discount on cash flows		(4,196)
Total lease liability	$	19,814

NOTE 8 - DEPOSITS

The following table sets forth the details of total deposits:

(dollars in thousands)	December 31, 2019			December 31, 2018		
Noninterest-bearing demand	$	1,124,121	21.23%	$	950,218	20.56%
Interest-bearing checking		1,797,504	33.96%		1,711,507	37.04%
Money market		1,003,149	18.95%		715,620	15.49%
Savings		498,201	9.41%		486,287	10.52%
Certificates of deposit		870,804	16.45%		757,038	16.39%
Total Deposits	$	5,293,779	100.00%	$	4,620,670	100.00%

At December 31, 2019, certificates of deposit totaling $63.8 million were obtained through brokers, while no certificates of deposit at December 31, 2018 were obtained through brokers.

At December 31, 2019, the schedule of maturities of certificates of deposit is as follows:

(in thousands)		
2020	$	715,061
2021		103,285
2022		42,891
2023		8,215
2024		1,264
2025		88
	$	870,804

NOTE 9 - DEBT

Overnight and Short-Term Borrowings

At December 31, 2019, overnight and short-term borrowings from FHLB totaled $200.0 million, while at December 31, 2018 there were no overnight or short-term borrowings from FHLB.

In addition, Lakeland had overnight and short-term borrowings from correspondent banks totaling $85.0 million and $192.1 million at December 31, 2019 and 2018, respectively. At December 31, 2019, Lakeland had overnight and short-term federal funds lines available to borrow up to $230.0 million from correspondent banks. Lakeland may also borrow from the discount window of the Federal Reserve Bank of New York based on the market value of collateral pledged. Lakeland had no borrowings with the Federal Reserve Bank of New York as of December 31, 2019 or 2018.

Other short-term borrowings at December 31, 2019 and 2018 consisted of short-term securities sold under agreements to repurchase totaling $43.7 million and $41.8 million, respectively. Securities underlying the agreements were under Lakeland's control. At December 31, 2019, the Company had $44.0 million in mortgage-backed securities pledged for its short-term securities sold under agreements to repurchase.

FHLB Advances

Advances from the Federal Home Loan Bank ("FHLB") totaled $165.8 million at December 31, 2019, with a weighted average interest rate of 2.24%, with fixed maturity dates. At December 31, 2018, advances from the FHLB totaled $181.1 million, with a weighted average interest rate of 2.10%, with fixed maturity dates. These advances were collateralized by first mortgage loans. The advances have prepayment penalties. In 2017, the Company repaid an aggregate of $34.0 million in advances from the FHLB and recorded $638,000 in long-term debt prepayment fees.

The schedule of maturities of advances is as follows:

(in thousands)		
2020	$	55,881
2021		44,972
2022		40,526
2023		24,437
	$	165,816

Long-term Securities Sold Under Agreements to Repurchase

At both December 31, 2019 and 2018, Lakeland had no long-term securities sold under agreements to repurchase. In the second quarter of 2018, the Company repaid all of its $20.0 million in matured long-term securities sold under agreements to repurchase. In the first quarter of 2017, the Company repaid an aggregate of $20.0 million in long-term securities sold under agreements to repurchase and recorded $2.2 million in long-term debt prepayment fees.

Subordinated Debentures

On January 4, 2019, the Company acquired subordinated notes from Highlands. Highlands issued $5.0 million of fixed rate notes in May 2014. The notes bear interest at a rate of 8.00% per annum until maturity on May 16, 2024. In October 2015, Highlands issued $7.5 million of fixed rate notes bearing an interest rate of 6.94% until maturity on October 1, 2025.

On September 30, 2016, the Company completed an offering of $75.0 million of fixed to floating rate subordinated notes due September 30, 2026. The notes will bear interest at a rate of 5.125% per annum until September 30, 2021 and will then reset quarterly to the then current three-month LIBOR plus 397 basis points until maturity in September 30, 2026 or their earlier redemption. The debt is included in Tier 2 capital for the Company. Debt issuance costs totaled $1.5 million and are being amortized to maturity. Subordinated debt is presented net of issuance costs on the consolidated balance sheet.

In May 2007, the Company issued $20.6 million of junior subordinated debentures due August 31, 2037 to Lakeland Bancorp Capital Trust IV, a Delaware business trust. The distribution rate on these securities was 6.61% for 5 years and floats at LIBOR plus 152 basis points thereafter. The debentures are the sole asset of the Trust. The Trust issued 20,000 shares of trust preferred securities, $1,000 face value, for total proceeds of $20.0 million. The Company's obligations under the debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the Trust's obligations under the preferred securities. The preferred securities are callable by the Company on or after August 1, 2012, or earlier if the deduction of related interest for federal income taxes is prohibited, treatment as Tier I capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2037. On August 3, 2015, the Company acquired and extinguished $10.0 million of Lakeland Bancorp Capital Trust IV debentures and recorded a $1.8 million gain on the extinguishment of debt.

In June 2003, the Company issued $20.6 million of junior subordinated debentures due June 30, 2033 to Lakeland Bancorp Capital Trust II, a Delaware business trust. The distribution rate on these securities was 5.71% for 5 years and floats at LIBOR plus 310 basis points thereafter. The debentures are the sole asset of the Trust. The Trust issued 20,000 shares of trust preferred securities, $1,000 face value, for total proceeds of $20.0 million. The Company's obligations under the debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the Trust's obligations under the preferred securities. The preferred securities are callable by the Company on or after June 30, 2008, or earlier if the deduction of related interest for federal income taxes is prohibited, treatment as Tier I capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2033.

In June 2016, the Company entered into two cash flow swaps totaling $30.0 million in order to hedge the variable cash outflows associated with the junior subordinated debentures issued to Lakeland Capital Trust II and Lakeland Capital Trust IV. For more information please see Note 19 – Derivatives.

NOTE 10 - STOCKHOLDERS' EQUITY

On October 22, 2019, the Board of Directors of Lakeland approved a new share repurchase program whereby the Company may repurchase up to 2,524,458 shares of its common stock, or approximately 5% of its outstanding shares of common stock at September 30, 2019. The Company had 50,489,161 shares outstanding as of September 30, 2019. Repurchases may be made from time to time through a combination of open market and privately negotiated repurchases. The specific timing, price and quantity of repurchases will be at the discretion of the Company and will depend on a variety of factors, including general market conditions, the trading price of the common stock, legal and contractual requirements and the Company's financial performance. Open market purchases may be conducted in accordance with the limitations of Rule 10b-18 of the Securities and Exchange Commission (the SEC). Repurchases may be made pursuant to trading plans adopted in accordance with SEC Rule 10b5-1, which would permit common stock to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. The repurchase program does not obligate the Company to repurchase any particular number of shares and may be terminated at any time without notice, in the Company's discretion. As of December 31, 2019, the Company had repurchased no shares.

NOTE 11 - INCOME TAXES

The components of income taxes are as follows:

(in thousands)	Years Ended December 31, 2019	2018	2017
Current tax provision	$ 20,418	$ 30,459	$ 10,565
Deferred tax expense (benefit)	2,854	(13,571)	16,904
Total provision for income taxes	$ 23,272	$ 16,888	$ 27,469

In July 2018, the State of New Jersey enacted changes to the tax law that were retroactive to the beginning of 2018. Included in these changes was a surcharge in addition to the corporate tax. The surcharge will be 2.5% for 2018 and 2019, 1.5% for 2020 and 2021, and will revert to no surcharge in 2022. In addition to the surcharge, New Jersey adopted the concept of combined (consolidated) tax filings under a unitary concept for corporations that are part of an affiliated group beginning in 2019. As of July 1, 2018, the Company revalued its deferred tax assets based on the additional surcharge and the combined tax filings. Based on this revaluation, the Company recorded an increase in its net deferred tax asset of $943,000 to reflect the change in the state tax rates among its subsidiaries.

The Tax Cuts and Jobs Act was enacted on December 22, 2017, resulting in changes in the U.S. corporate tax rates, business-related exclusions, deductions and credits. Enactment of the Tax Cuts and Jobs Act requires the Company to reflect the changes associated with the law's provisions in its consolidated financial statements as of and for the year ended December 31, 2017. The Company recorded an increase in its net deferred tax asset of $1.3 million to reflect the reduction in the federal corporate income tax rate from 35% to 21%.

During 2017, the Company implemented a tax planning strategy which resulted in an increase in deferred tax liabilities, a higher deferred tax provision and a $1.9 million excise tax recorded through current tax expense. Consequently, as a result of the Tax Cuts and Jobs Act being passed and the effect of the tax planning strategy, the net impact on the financial statements was $602,000 in additional tax expense.

The income tax provision reconciled to the income taxes that would have been computed at the statutory federal rate of 21% for 2019 and 2018 and 35% for 2017 is as follows:

(in thousands)	Years Ended December 31, 2019	2018	2017
Federal income tax, at statutory rates	$ 19,728	$ 16,861	$ 28,017
Increase (deduction) in taxes resulting from:			
Tax-exempt income	(952)	(1,096)	(1,652)
Excise tax on real estate investment trust ("REIT") dividend	—	—	1,945
Adjustment to net deferred tax asset for Tax Cuts and Jobs Act	—	—	(1,343)
State income tax, net of federal income tax effect	4,322	1,880	931
Adjustment to net deferred tax asset for change in NJ tax law	—	(943)	—
Excess tax benefits from employee share-based payments	(189)	(318)	(587)
Other, net	363	504	158
Provision for income taxes	$ 23,272	$ 16,888	$ 27,469

The net deferred tax asset consisted of the following:

(in thousands)	December 31, 2019	December 31, 2018
Deferred tax assets:		
Allowance for loan losses	$ 11,937	$ 11,651
Stock based compensation plans	958	865
Purchase accounting fair market value adjustments	3,632	1,192
Non-accrued interest	381	256
Deferred compensation	2,444	2,142
Depreciation and amortization	—	630
Other-than-temporary impairment loss on investment securities	41	59
Federal net operating loss carryforward	875	—
Unrealized loss on pension plans	2	—
Unrealized losses on securities available for sale	—	3,162
Other, net	594	585
Gross deferred tax assets	20,864	20,542
Deferred tax liabilities:		
Core deposit intangible from acquired companies	1,235	516
Undistributed income from subsidiary not consolidated for tax return purposes (REIT)	678	149
Deferred loan costs	1,461	1,418
Depreciation and amortization	750	—
Prepaid expenses	443	459
Deferred gain on securities	162	166
Unfunded pension benefits	—	17
Loss on equity securities	65	36
Unrealized gain on investment securities	884	—
Unrealized gains on hedging derivative	80	322
Other	301	270
Gross deferred tax liabilities	6,059	3,353
Net deferred tax assets	$ 14,805	$ 17,189

The Company recorded net deferred tax assets of $4.3 million as a result of the acquisition of Highlands.

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, 2019 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. The Company had no unrecognized tax benefits or related interest or penalties at December 31, 2019 or 2018.

The Company is subject to U.S. federal income tax law as well as income tax of various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few significant exceptions, the Company is no longer subject to U.S. federal examinations by tax authorities for the years before 2016 or to state and local examinations by tax authorities for the years before 2016.

NOTE 12 - EMPLOYEE BENEFIT PLANS

Benefit Obligations from Somerset Hills Acquisition

Somerset Hills, acquired by the Company in 2013, entered into a non-qualified Supplemental Executive Retirement Plan ("SERP") with its former Chief Executive Officer and its Chief Financial Officer which entitles them to a benefit of $48,000 and $24,000, respectively, per year for 15 years after the earlier of retirement or death. The former Chief Executive Officer and the beneficiary of the Chief Financial Officer are currently being paid out under the plan. As of December 31, 2019 and 2018, the Company had a liability of $616,000 and $629,000, respectively, for these SERPs and recognized an expense of $59,000 and $33,000 in 2019 and 2017, respectively, while recognizing income of $1,000 in 2018.

401(k) plan

The Company has a 401(k) plan covering substantially all employees providing they meet eligibility requirements. The Company matches 50% of the first 6% contributed by the participants to the 401(k) plan. The Company's contributions in 2019, 2018 and 2017 totaled $1.3 million, $1.1 million and $1.0 million, respectively.

Supplemental Executive Retirement Plans

In 2003, the Company entered into a SERP agreement with its former CEO that provides annual retirement benefits of $150,000 a year for 15 years when the former CEO reached the age of 65. Our former CEO retired and is receiving annual retirement benefits pursuant to the plan. In 2008, the Company entered into a SERP agreement with its current CEO that provides annual retirement benefits of $150,000 for 15 years when the CEO reaches the age of 65. Also in 2008, the Company entered into a SERP with a Regional President that provides annual retirement benefits of $90,000 a year for ten years upon his reaching the age of 65. In 2016, the Company entered into a SERP with a former Regional President that provides $84,500 a year for 15 years upon his reaching the age of 66. The Company intends to fund its obligations under the deferred compensation arrangements with the increase in cash surrender value of bank owned life insurance policies. In 2019, 2018 and 2017, the Company recorded compensation expense of $371,000, $83,000 and $261,000, respectively, for these plans. The accrued liability for these plans was $3.4 million and $3.3 million for the years ended December 31, 2019 and 2018, respectively.

Deferred Compensation Agreement

In 2015, the Company entered into a Deferred Compensation Agreement with its CEO where it would contribute $16,500 monthly into a deferral account which would earn interest at an annual rate of the Company's prior year return on equity, provided that the Company's return on equity remained in a range of 0% to 15%. The Company has agreed to make such contributions each month that the CEO is actively employed from February 2015 through December 31, 2022. The expense incurred in 2019, 2018 and 2017 was $311,000, $269,000 and $244,000, respectively, and the accrued liability at December 31, 2019 and 2018 was $1.2 million and $923,000, respectively. Following the CEO's normal retirement date, he shall be paid out in 180 consecutive monthly installments.

Elective Deferral Plan

In 2015, the Company established an Elective Deferral Plan for eligible executives in which the executive may elect to contribute a portion of his base salary and bonus to a deferral account which will earn an interest rate of 75% of the Company's prior year return on equity provided that the return on equity remains in the range of 0% to 15%. The Company recorded an expense of $136,000, $73,000 and $55,000 in 2019, 2018 and 2017, respectively, and had a liability recorded of $2.0 million and $1.4 million at December 31, 2019 and 2018, respectively.

NOTE 13 - DIRECTORS RETIREMENT PLAN

The Company provides a retirement plan for directors appointed to the Company's Board of Directors prior to 2009 who after completing five years of service may retire and receive benefit payments ranging from $5,000 through $17,500 per annum, depending upon years of credited service, for a period of ten years. This plan is unfunded. The following tables present the status of the plan and the components of net periodic plan cost for the years then ended. The measurement date for the accumulated benefit obligation is December 31 of the years presented.

	December 31,	
(in thousands)	2019	2018
Accrued plan cost included in other liabilities	$ 646	$ 604
Amount not recognized as component of net postretirement benefit cost		
Recognized in accumulated other comprehensive income		
Net actuarial loss (gain)	$ 64	$ (29)
Unrecognized prior service cost	—	—
Amounts not recognized as a component of net postretirement benefit	$ 64	$ (29)

The net periodic plan cost included the following components:

(in thousands)	Years Ended December 31, 2019	2018	2017
Service cost	$ 14	$ 15	$ 21
Interest cost	22	20	23
Amortization of prior service cost	—	—	3
Amortization of gain	(2)	—	—
	$ 34	$ 35	$ 47

A discount rate of 2.89%, 3.97% and 3.30% was assumed in the plan valuation for 2019, 2018 and 2017, respectively. As the benefit amount is not dependent upon compensation levels, a rate of increase in compensation assumption was not utilized in the plan valuation.

The directors' retirement plan holds no plan assets. The benefits expected to be paid in each of the next five years and in aggregate for the five years thereafter are as follows:

(in thousands)	
2020	$ 63
2021	37
2022	38
2023	38
2024	52
2025-2029	210

The Company expects its contribution to the directors' retirement plan to be $63,000 in 2020.

There is no expected amount to be recognized in accumulated other comprehensive income as a component of net periodic benefit cost in 2020.

NOTE 14 - STOCK-BASED COMPENSATION

The Company's shareholders approved the 2018 Omnibus Equity Incentive Plan (the "Plan"), which authorizes the granting of incentive stock options, supplemental stock options, stock appreciation rights, restricted shares, restricted stock units, other stock-based awards and cash-based awards to officers, employees and non-employee directors of, and consultants and advisors to, the Company and its subsidiaries. The Plan authorizes the issuance of up to 2.0 million shares of Company common stock and includes approximately 1.1 million shares of common stock theretofore available under the Company's 2009 Equity Compensation Program but not used. The maximum term of the Company’s stock option grants under the Plan is ten years from the date of grant.

Under the 2009 Equity Compensation Program, 2.3 million shares of common stock of the Company were authorized. The maximum term of the Company’s stock option grants under this plan was ten years from the date of grant. No further awards may be granted from the 2009 program.

In 2014, the Company began issuing restricted stock units ("RSUs"), some of which have performance conditions attached to them.

The Company has outstanding stock options issued to its directors as well as options assumed under the Somerset Hills’ stock option plans at the time of the Company's acquisition of Somerset Hills. As of December 31, 2019 and 2018, respectively, 28,942 and 55,192 options granted to directors were outstanding. As of December 31, 2019 and 2018, there were 2,764 and 12,296 options outstanding, respectively, under the Somerset Hills’ stock option plans.

Excess tax benefits of stock based compensation were $189,000, $318,000 and $587,000 for the years 2019, 2018 and 2017, respectively.

Employee Stock Options

A summary of the status of the Company's option plans as of December 31, 2019 and the changes during the year ending on that date is represented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding, beginning of year	67,488	$ 8.28	2.86	$ 440,483
Exercised	(35,782)	8.75		
Outstanding, end of year	31,706	$ 7.76	0.58	$ 305,120
Options exercisable at year-end	31,706	$ 7.76	0.58	$ 305,120

There were no non-vested options under the Company's option plans as of December 31, 2019 and no changes to the non-vested options for the year then ended.

As of December 31, 2019, there was no unrecognized compensation expense related to unvested stock options under the 2018 Omnibus Equity Incentive Plan or the 2009 Equity Compensation Program. There was no compensation expense recognized for stock options for 2019 and 2018 and $14,000 of compensation expense for stock options was recognized for 2017.

The aggregate intrinsic values of options exercised in 2019 and 2018 were $265,000 and $406,000, respectively. Exercise of stock options during 2019 and 2018 resulted in cash receipts of $313,000 and $307,000, respectively. No options vested in 2019 and 2018.

Restricted Stock

Information regarding the Company's restricted stock for the year ended December 31, 2019 is as follows:

	Number of Shares	Weighted Average Price
Outstanding, beginning of year	11,701	$ 20.18
Granted	13,052	15.96
Vested	(11,643)	20.24
Outstanding, end of year	13,110	$ 15.93

In 2019, the Company granted 13,052 shares of restricted stock to non-employee directors at a grant date fair value of $15.96 per share under the Company's 2018 Omnibus Equity Incentive Plan. These shares will vest over a one year period, totaling $208,000 in compensation expense. In 2018, the Company granted 11,575 shares of restricted stock to non-employee directors at a grant date fair value of $20.30 per share under the Company's 2018 Omnibus Equity Incentive Plan and 2009 Equity Compensation Program. These shares vested over a one year period, totaling $235,000 in compensation expense. In 2017, the Company granted 13,176 shares of restricted stock to non-employee directors at a grant date fair value of $18.20 per share under the Company's 2009 Equity Compensation Program. These shares vested over a one year period, totaling $240,000 in compensation expense.

The total fair value of the restricted stock vested during the year ended December 31, 2019 was approximately $236,000. Compensation expense recognized for restricted stock was $212,000, $237,000 and $287,000 in 2019, 2018 and 2017, respectively. There was no unrecognized compensation expense related to restricted stock grants as of December 31, 2019.

Restricted Stock Units

Information regarding the Company's RSUs and changes during the year ended December 31, 2019 is as follows:

	Number of RSUs	Weighted Average Price
Outstanding, beginning of year	299,347	$ 16.60
Granted	149,559	16.54
Vested	(138,578)	13.12
Forfeited	(9,699)	18.02
Outstanding, end of year	300,629	$ 18.13

In 2019, the Company granted 149,559 RSUs at a weighted average grant date fair value of $16.54 per share under the Company's 2018 Omnibus Equity Incentive Plan. These units vest within a range of two to three years. A portion of these RSUs will vest subject to certain performance conditions in the restricted stock unit agreements. There are also certain provisions in the compensation program which state that if a holder of the RSUs reaches a certain age and years of service, the person has effectively earned a portion of the RSUs at that time. Compensation expense on the RSUs granted in 2019 is expected to average approximately $825,000 per year over a three year period. In 2018, the Company granted 159,233 RSUs at a weighted average grant date fair value of $19.09 per share under the Company's 2018 Omnibus Equity Incentive Plan and 2009 Equity Compensation Program. These units vest within a range of two to three years. Compensation expense on these restricted stock units is expected to average approximately $1.0 million per year over a three year period. In 2017, the Company granted 132,523 RSUs at a weighted average grant date fair value of $19.92 per share under the Company's 2009 Equity Compensation Program. Compensation expense on these restricted stock units is expected to average $880,000 per year over a three year period. Compensation expense for restricted stock units totaled $2.3 million, $2.2 million and $2.0 million in 2019, 2018 and 2017, respectively. There was approximately $2.4 million in unrecognized compensation expense related to restricted stock units as of December 31, 2019, which is expected to be recognized over a period of 1.29 years.

NOTE 15 - REVENUE RECOGNITION

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

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

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

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

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

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

The following table sets forth the components of noninterest income for the years ended December 31, 2019, 2018 and 2017:

(in thousands)	2019	2018	2017
Deposit Related Fees and Charges			
Debit card interchange income	$ 5,719	$ 5,150	$ 4,474
Overdraft charges	4,052	3,938	4,656
ATM service charges	826	830	808
Demand deposit fees and charges	501	540	679
Savings service charges	107	126	123
Total	11,205	10,584	10,740
Commissions and Fees			
Loan fees	1,510	1,264	1,136
Wire transfer charges	1,223	1,093	1,005
Investment services income	1,651	1,314	1,045
Merchant fees	813	784	718
Commissions from sales of checks	407	434	457
Safe deposit income	364	371	269
Other income	250	264	202
Total	6,218	5,524	4,832
Gains on Sale of Loans	1,660	1,329	1,836
Other Income			
Gains on customer swap transactions	3,231	1,992	982
Title insurance income	183	195	200
Other income	1,463	295	518
Total	4,877	2,482	1,700
Revenue not from contracts with customers	2,836	2,391	6,327
Total Noninterest Income	$ 26,796	$ 22,310	$ 25,435
Timing of Revenue Recognition			
Products and services transferred at a point in time	$ 23,885	$ 19,844	$ 19,040
Products and services transferred over time	75	75	68
Revenue not from contracts with customers	2,836	2,391	6,327
Total Noninterest Income	$ 26,796	$ 22,310	$ 25,435

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Litigation

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.

Financial Instruments with Off-Balance-Sheet Risk and Concentrations of Credit Risk

The Company is a party to transactions with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and consists of commitments to extend credit. These transactions involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the accompanying consolidated balance sheets. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract and generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Lakeland evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Lakeland upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2019 and 2018, Lakeland had $1.1 billion and $973.7 million in commitments to originate loans, including unused lines of credit.

Lakeland issues financial standby letters of credit and performance letters of credit that are conditional commitments issued by Lakeland to guarantee the payment by or performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Lakeland holds deposit accounts, residential or commercial real estate, accounts receivable, inventory and equipment as collateral to support those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments varies based on management's credit evaluation. Lakeland's exposure under these letters of credit would be reduced by actual performance, subsequent termination by the beneficiaries and by any proceeds that Lakeland obtained in liquidating the collateral for the loans, which varies depending on the customer. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2019 and 2018 was $17.2 million and $21.6 million, respectively, and they expire through 2024. The fair value of Lakeland's liability for financial standby letters of credit was insignificant at December 31, 2019.

At December 31, 2019 and 2018 there were $100,000 and $808,000, respectively, in commitments to lend additional funds to borrowers whose terms have been modified in troubled debt restructurings.

NOTE 17 - COMPREHENSIVE INCOME (LOSS)

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

The following table shows the changes in the balances of each of the components of other comprehensive income for the periods presented.

	Year Ended December 31, 2019		
(in thousands)	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
Unrealized holding gains on securities available for sale arising during the period	$ 14,763	$ (4,045)	$ 10,718
Unrealized losses on derivatives	(828)	242	(586)
Change in pension liability, net	(64)	18	(46)
Other comprehensive income	$ 13,871	$ (3,785)	$ 10,086

	Year Ended December 31, 2018		
(in thousands)	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
Unrealized holding gains on securities available for sale arising during the period	$ (4,241)	$ 734	$ (3,507)
Unrealized gains on derivatives	9	32	41
Change in pension liability, net	29	(9)	20
Other comprehensive loss	$ (4,203)	$ 757	$ (3,446)

	Year Ended December 31, 2017		
(in thousands)	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
Unrealized losses on securities available for sale			
Unrealized holding losses arising during period	$ (1,406)	$ 503	$ (903)
Reclassification adjustment for securities gains included in net income	(2,524)	884	(1,640)
Net unrealized losses on available for sale securities	(3,930)	1,387	(2,543)
Unrealized gains on derivatives	57	(20)	37
Change in pension liability, net	(27)	11	(16)
Other comprehensive loss	$ (3,900)	$ 1,378	$ (2,522)

(in thousands, net of tax)	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Gains (Losses) on Derivatives	Pension Items	Total
Balance at of January 1, 2017	$ (117)	$ 672	$ 38	$ 593
Other comprehensive income (loss) before classifications	(903)	37	(16)	(882)
Amounts reclassified from accumulated other comprehensive income	(1,640)	—	—	(1,640)
Net current period other comprehensive income (loss)	(2,543)	37	(16)	(2,522)
Adjustment for implementation of ASU 2018-02	(572)	153	(1)	(420)
Balance at December 31, 2017	$ (3,232)	$ 862	$ 21	$ (2,349)
Adjustment for implementation of ASU 2016-01	(2,043)	—	—	(2,043)
Adjusted balance as of January 1, 2018	(5,275)	862	21	(4,392)
Net current period other comprehensive income (loss)	(3,507)	41	20	(3,446)
Balance at December 31, 2018	$ (8,782)	$ 903	$ 41	$ (7,838)
Net current period other comprehensive income (loss)	10,718	(586)	(46)	10,086
Balance at December 31, 2019	$ 1,936	$ 317	$ (5)	$ 2,248

NOTE 18 - FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurement

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

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

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

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

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

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

The following table sets forth the Company's financial assets that were accounted for at fair value on a recurring basis as of the periods presented by level within the fair value hierarchy. During the years ended December 31, 2019 and 2018, the Company did not make any transfers between recurring Level 1 fair value measurements and recurring Level 2 fair value measurements. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
(in thousands)				
Assets:				
Investment securities, available for sale				
U.S. Treasury and government agencies	$ 12,580	$ 123,067	$ —	$ 135,647
Mortgage-backed securities	—	551,064	—	551,064
Obligations of states and political subdivisions	—	60,021	—	60,021
Corporate debt securities	—	9,168	—	9,168
Total securities available for sale	12,580	743,320	—	755,900
Equity securities, at fair value	1,735	14,738	—	16,473
Derivative assets	—	27,123	—	27,123
Total Assets	$ 14,315	$ 785,181	$ —	$ 799,496
Liabilities:				
Derivative liabilities	$ —	$ 26,852	$ —	$ 26,852
Total Liabilities	$ —	$ 26,852	$ —	$ 26,852

December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
(in thousands)				
Assets:				
Investment securities, available for sale				
U.S. Treasury and government agencies	$ 4,920	$ 136,007	$ —	$ 140,927
Mortgage-backed securities	—	447,094	—	447,094
Obligations of states and political subdivisions	—	45,505	—	45,505
Corporate debt securities	—	5,092	—	5,092
Total securities available for sale	4,920	633,698	—	638,618
Equity securities, at fair value	2,731	13,190	—	15,921
Derivative assets	—	12,135	—	12,135
Total Assets	$ 7,651	$ 659,023	$ —	$ 666,674
Liabilities:				
Derivative liabilities	$ —	$ 11,036	$ —	$ 11,036
Total Liabilities	$ —	$ 11,036	$ —	$ 11,036

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

December 31, 2019	(Level 1)	(Level 2)	(Level 3)	Total Fair Value
(in thousands)				
Assets:				
Impaired loans	$ —	$ —	$ 5,789	$ 5,789
Loans held for sale	—	1,743	—	1,743
Other real estate owned and other repossessed assets	—	—	563	563

December 31, 2018	(Level 1)	(Level 2)	(Level 3)	Total Fair Value
(in thousands)				
Assets:				
Impaired loans	$ —	$ —	$ 8,966	$ 8,966
Loans held for sale	—	1,113	—	1,113
Other real estate owned and other repossessed assets	—	—	830	830

Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. Because most of Lakeland's impaired loans are collateral dependent, fair value is generally measured based on the value of the collateral, less estimated costs to sell, securing these loans and is classified at a level 3 in the fair value hierarchy. Collateral may be real estate, accounts receivable, inventory, equipment and/or other business assets. The value of the real estate is assessed based on appraisals by qualified third party licensed appraisers. The appraisers may use the income approach to value the collateral using the then market discount rates (with ranges of 5-11%) or capitalization rates (with ranges of 4-9%) to evaluate the property. The value of the equipment may be determined by an appraiser, if significant, inquiry through a recognized valuation resource, or by the value on the borrower's financial statements. Field examiner reviews on business assets may be conducted based on the loan exposure and reliance on this type of collateral. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

The Company has a held for sale loan portfolio that consists of residential mortgages that are being sold in the secondary market. The Company records these mortgages at the lower of cost or fair market value. Fair value is generally determined by the value of purchase commitments.

Other real estate owned (OREO) and other repossessed assets, representing property acquired through foreclosure or deed in lieu of foreclosure, are carried at fair value less estimated disposal costs of the acquired property. Fair value on other real estate owned is based on the appraised value of the collateral using discount rates or capitalization rates similar to those used in impaired loan valuation. The fair value of other repossessed assets is estimated by inquiry through a recognized valuation resource.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Changes in economic conditions, locally or nationally, could impact the value of the estimated amounts of impaired loans, OREO and other repossessed assets.

Fair Value of Certain Financial Instruments

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. Management is concerned that there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

The estimation methodologies used, the estimated fair values, and recorded book balances at December 31, 2019 and December 31, 2018 are outlined below.

This summary, as well as the table below, excludes financial assets and liabilities for which carrying value approximates fair value. For financial assets, these include cash and cash equivalents. For financial liabilities, these include noninterest-bearing demand deposits, savings and interest-bearing transaction accounts and federal funds sold and securities sold under agreements to repurchase. The estimated fair value of demand, savings and interest-bearing transaction accounts is the amount payable on demand at the reporting date. Carrying value is used because there is no stated maturity on these accounts, and the customer has the ability to withdraw the funds immediately. Also excluded from this summary and the following table are those financial instruments recorded at fair value on a recurring basis, as previously described.

The fair value of investment securities held to maturity was measured using information from the same third-party servicer used for investment securities available for sale using the same methodologies discussed above. Investment securities held to maturity includes $901,000 in short-term municipal bond anticipation notes and $2.5 million in subordinated debt that are non-rated and do not have an active secondary market or information readily available on standard financial systems. As a result, the securities are classified as Level 3 securities. Management performs a credit analysis before investing in these securities.

FHLB stock is an equity interest that can be sold to the issuing FHLB, to other FHLBs, or to other member banks at its par value. Because ownership of these securities is restricted, they do not have a readily determinable fair value. As such, the Company's FHLB stock is recorded at cost or par value and is evaluated for impairment each reporting period by considering the ultimate recoverability of the investment rather than temporary declines in value. The Company's evaluation primarily includes an evaluation of liquidity, capitalization, operating performance, commitments, and regulatory or legislative events.

The net loan portfolio is valued using an exit price approach, which incorporates a build-up discount rate calculation that uses a swap rate adjusted for credit risk, servicing costs, a liquidity premium and a prepayment premium.

For fixed maturity certificates of deposit, fair value was estimated based on the present value of discounted cash flows using the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

The fair value of long-term debt is based upon the discounted value of contractual cash flows. The Company estimates the discount rate using the rates currently offered for similar borrowing arrangements. The fair value of subordinated debentures is based on bid/ask prices from brokers for similar types of instruments.

The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. The fair values of commitments to extend credit and standby letters of credit are deemed immaterial.

The following table presents the carrying values, fair values and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2019 and December 31, 2018:

December 31, 2019	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)					
Financial Assets:					
Investment securities held to maturity	$ 123,975	$ 124,904	$ —	$ 121,503	$ 3,401
Federal Home Loan and other membership bank stock	22,505	22,505	—	22,505	—
Loans, net	5,097,820	5,194,065	—	—	5,194,065
Financial Liabilities:					
Certificates of deposit	870,804	871,418	—	871,418	—
Other borrowings	165,816	166,505	—	166,505	—
Subordinated debentures	118,220	117,992	—	—	117,992

December 31, 2018	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)					
Financial Assets:					
Investment securities held to maturity	$ 153,646	$ 150,932	$ —	$ 143,913	$ 7,019
Federal Home Loan and other membership bank stock	13,301	13,301	—	13,301	—
Loans, net	4,419,045	4,341,477	—	—	4,341,477
Financial Liabilities:					
Certificates of deposit	757,038	750,801	—	750,801	—
Other borrowings	181,118	176,921	—	176,921	—
Subordinated debentures	105,027	102,497	—	—	102,497

NOTE 19 - DERIVATIVES

Lakeland is a party to interest rate derivatives that are not designated as hedging instruments. Under a program, Lakeland executes interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that Lakeland executes with a third party, such that Lakeland minimizes its net risk exposure resulting from such transactions. Because the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. The changes in the fair value of the swaps offset each other, except for the credit risk of the counterparties, which is determined by taking into consideration the risk rating, probability of default and loss given default for all counterparties. As of December 31, 2019 and 2018, Lakeland had $30.0 million and $498,000, respectively, in securities pledged for collateral on its interest rate swaps.

In June 2016, the Company entered into two cash flow hedges in order to hedge the variable cash outflows associated with its floating rate subordinated debentures (See Note 9). The notional value of these hedges was $30.0 million. The Company's objective in using the cash flow hedge is to add stability to interest expense and to manage its exposure to interest rate movements. The Company used interest rate swaps designated as cash flow hedges which involved the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. In these particular hedges the Company is paying a third party an average of 1.10% in exchange for a payment at 3 month LIBOR . The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the year ended December 31, 2019, the Company did not record any hedge ineffectiveness. The Company recognized $409,000 of accumulated other comprehensive income that was reclassified into interest expense during 2019. The Company did not enter into any hedges in 2019.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's debt. During the next twelve months, the Company estimates that $243,000 will be reclassified as a decrease to interest expense should the rate environment remain the same.

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

December 31, 2019	Notional Amount	Average Maturity (Years)	Weighted Average Rate Fixed	Weighted Average Variable Rate	Fair Value
Classified in Other Assets:					
Third party interest rate swaps	$ 85,796	9.0	3.51%	1 Mo. LIBOR + 1.95	$ 947
Customer interest rate swaps	473,273	9.9	4.32%	1 Mo. LIBOR + 1.93	25,905
Interest rate swap (cash flow hedge)	30,000	1.5	1.10%	3 Mo. LIBOR	271
Classified in Other Liabilities:					
Customer interest rate swaps	$ 85,796	9.0	3.51%	1 Mo. LIBOR + 1.95	$ (947)
Third party interest rate swaps	473,273	9.9	4.32%	1 Mo. LIBOR + 1.93	(25,905)

December 31, 2018	Notional Amount	Average Maturity (Years)	Weighted Average Rate Fixed	Weighted Average Variable Rate	Fair Value
Classified in Other Assets:					
3rd Party interest rate swaps	$ 153,909	8.3	4.10%	1 Mo. LIBOR + 2.13	$ 5,329
Customer interest rate swaps	164,427	12.0	5.04%	1 Mo. LIBOR + 2.05	5,707
Interest rate swap (cash flow hedge)	30,000	2.5	1.10%	3 Mo. LIBOR	1,099
Classified in Other Liabilities:					
Customer interest rate swaps	$ 153,909	8.3	4.10%	1 Mo. LIBOR + 2.13	$ (5,329)
3rd party interest rate swaps	164,427	12.0	5.04%	1 Mo. LIBOR + 2.05	(5,707)

NOTE 20 - REGULATORY MATTERS

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 Lakeland will be unimpaired, and: (1) Lakeland will have a surplus, as defined, of not less than 50% of its capital stock, or, if not, (2) the payment of such dividend will not reduce the surplus, as defined, of Lakeland. Under these limitations, approximately $629.1 million was available for payment of dividends from Lakeland to the Company as of December 31, 2019.

The Company and Lakeland are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possible additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's and Lakeland's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's and Lakeland's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Lakeland's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulations to ensure capital adequacy require the Company and Lakeland to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2019, that the Company and Lakeland met all capital adequacy requirements to which they are subject.

As of December 31, 2019, the most recent notification from the FDIC categorized Lakeland as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Lakeland must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 capital and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

As of December 31, 2019 and 2018, the Company and Lakeland have the following capital ratios based on the then current regulations:

(dollars in thousands)	Actual			For Capital Adequacy Purposes with Capital Conservation Buffer			To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2019	Amount	Ratio		Amount	Ratio		Amount	Ratio
Total capital (to risk-weighted assets)								
Company	$721,741	13.40%	≥	$565,504	≥ 10.50%		N/A	N/A
Lakeland	681,689	12.67%		564,981	10.50%	≥	$538,077	≥ 10.00%
Tier 1 capital (to risk-weighted assets)								
Company	$593,539	11.02%	≥	$457,789	≥ 8.50%		N/A	N/A
Lakeland	639,908	11.89%		457,365	8.50%	≥	$430,462	≥ 8.00%
Common equity Tier 1 capital (to risk-weighted assets)								
Company	$563,539	10.46%	≥	$377,003	≥ 7.00%		N/A	N/A
Lakeland	639,908	11.89%		376,654	7.00%	≥	$349,750	≥ 6.50%
Tier 1 capital (to average assets)								
Company	$593,539	9.41%	≥	$252,234	≥ 4.00%		N/A	N/A
Lakeland	639,908	10.16%		252,039	4.00%	≥	$315,048	≥ 5.00%

(dollars in thousands)	Actual			For Capital Adequacy Purposes with Capital Conservation Buffer			To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2018	Amount	Ratio		Amount	Ratio		Amount	Ratio
Total capital (to risk-weighted assets)								
Company	$637,377	13.71%	≥	$458,952	≥ 9.875%		N/A	N/A
Lakeland	605,560	13.06%		457,912	9.875%	≥	$463,708	≥ 10.00%
Tier 1 capital (to risk-weighted assets)								
Company	$523,577	11.27%	≥	$366,000	≥ 7.875%		N/A	N/A
Lakeland	565,549	12.20%		365,170	7.875%	≥	$370,967	≥ 8.00%
Common equity Tier 1 capital (to risk-weighted assets)								
Company	$493,577	10.62%	≥	$296,285	≥ 6.375%		N/A	N/A
Lakeland	565,549	12.20%		295,614	6.375%	≥	$301,410	≥ 6.50%
Tier 1 capital (to average assets)								
Company	$523,577	9.39%	≥	$222,982	≥ 4.00%		N/A	N/A
Lakeland	565,549	10.17%		222,539	4.00%	≥	$278,173	≥ 5.00%

The final rules implementing the Basel Committee on Banking Supervisions capital guidelines for U.S. Banks became effective for the Company on January 1, 2015, with full compliance with all the final rule's requirements phased in over a multi-year schedule, and was fully phased in at January 1, 2019. The Basel Rules require a "capital conservation buffer." The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and increased by 0.625% every January 1 until it reached 2.5% on January 1, 2019.

NOTE 21 - GOODWILL AND OTHER INTANGIBLE ASSETS

The Company reported goodwill of $156.3 million at December 31, 2019 and $136.4 million at December 31, 2018. The Company recorded $19.8 million in goodwill from the Highlands merger in January 2019.

Core deposit intangible was $4.3 million on December 31, 2019 compared to $1.8 million on December 31, 2018. The Company recorded core deposit intangible of $3.7 million for the Highlands acquisition. In 2019, amortization of core deposit intangible totaled $1.2 million. The estimated future amortization expense for each of the succeeding five years ended December 31 is as follows:

(in thousands)		
2020	$	1,025
2021		868
2022		711
2023		554
2024		425

NOTE 22 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

CONDENSED BALANCE SHEETS

	December 31,			
(in thousands)	2019		2018	
ASSETS				
Cash and due from banks	$	29,981	$	23,285
Equity securities		1,735		2,743
Investment securities, held to maturity		1,000		1,000
Investment in subsidiaries		802,079		695,571
Other assets		9,828		7,182
TOTAL ASSETS	$	844,623	$	729,781
LIABILITIES AND STOCKHOLDERS' EQUITY				
Other liabilities	$	1,140	$	1,015
Subordinated debentures		118,220		105,027
Total stockholders' equity		725,263		623,739
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	844,623	$	729,781

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31,					
(in thousands)	2019		2018		2017	
INCOME						
Dividends from subsidiaries	$	36,905	$	30,589	$	26,665
Other income (loss)		408		(125)		2,750
TOTAL INCOME		37,313		30,464		29,415
EXPENSE						
Interest on subordinated debentures		5,983		5,141		5,091
Noninterest expenses		464		506		377
TOTAL EXPENSE		6,447		5,647		5,468
Income before benefit for income taxes		30,866		24,817		23,947
Income taxes benefit		(1,646)		(1,130)		(2,018)
Income before equity in undistributed income of subsidiaries		32,512		25,947		25,965
Equity in undistributed income of subsidiaries		38,160		37,454		26,615
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$	70,672	$	63,401	$	52,580

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended December 31, 2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 70,672	$ 63,401	$ 52,580
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Gain on securities	—	—	(2,539)
Amortization of subordinated debt costs	36	125	118
Change in market value of equity securities	(197)	338	—
Excess tax benefits	189	318	587
Increase in other assets	(1,873)	(1,446)	(1,927)
Increase (decrease) in other liabilities	121	(6)	(17)
Equity in undistributed income of subsidiaries	(38,160)	(37,454)	(26,615)
NET CASH PROVIDED BY OPERATING ACTIVITIES	30,788	25,276	22,187
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available for sale securities	—	—	(79)
Purchases of equity securities	(82)	(78)	—
Proceeds from sale of available for sale securities	—	—	3,217
Proceeds from sale of equity securities	1,287	2,155	—
Net cash received from business acquisition	24	—	—
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,229	2,077	3,138
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid on common stock	(24,919)	(21,307)	(18,853)
Retirement of restricted stock	(715)	(763)	(773)
Exercise of stock options	313	307	321
NET CASH USED IN FINANCING ACTIVITIES	(25,321)	(21,763)	(19,305)
Net increase in cash and cash equivalents	6,696	5,590	6,020
Cash and cash equivalents, beginning of year	23,285	17,695	11,675
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 29,981	$ 23,285	$ 17,695

ITEM 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable

ITEM 9A – Controls and Procedures.

Disclosure Controls

As of the end of the period covered by this Annual Report on Form 10-K, the Company's management, including the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) pursuant to Securities Exchange Act Rule 15d-15(b).

Based on their evaluation as of December 31, 2019, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective in ensuring that the information required to be disclosed by the Company in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and are operating in an effective manner and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

The management of Lakeland Bancorp, Inc. and its subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the board of directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework (2013).

As of December 31, 2019, based on management's assessment, the Company's internal control over financial reporting was effective.

Our independent registered public accounting firm, KPMG LLP, audited our internal control over financial reporting as of December 31, 2019. Their report, dated March 2, 2020, expressed an unqualified opinion on our internal control over financial reporting.

Changes in Internal Controls Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Lakeland Bancorp, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Lakeland Bancorp, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated March 2, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

KPMG LLP

Short Hills, New Jersey
March 2, 2020

ITEM 9B – Other Information.

None.

PART III

ITEM 10 – Directors, Executive Officers and Corporate Governance.

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement for its 2020 Annual Meeting of Shareholders.

ITEM 11 - Executive Compensation.

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement for its 2020 Annual Meeting of Shareholders.

ITEM 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement for its 2020 Annual Meeting of Shareholders.

EQUITY COMPENSATION PLAN INFORMATION

The following table gives information about the Company's common stock that may be issued upon the exercise of options under the Company's 2018 Omnibus Equity Incentive Plan and the 2009 Equity Compensation Program as of December 31, 2019. These plans were the Company's only equity compensation plans in existence as of December 31, 2019. The 2018 Omnibus Equity Incentive Plan is the successor to the 2009 Equity Compensation Program and no additional awards will be granted under the 2009 Equity Compensation Program.

Plan Category	(a) Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price Of Outstanding Options, Warrants and Rights	(c) Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected In Column (a))
Equity Compensation Plans Approved by Shareholders	342,681	$ 7.84	1,829,259
Equity Compensation Plans Not Approved by Shareholders	—	—	—
TOTAL	342,681	$ 7.84	1,829,259

The number in column (a) does not include a total of 2,764 shares of Lakeland common stock that are issuable upon the exercise of options assumed in the Somerset Hills merger with a weighted average exercise price of $6.94.

ITEM 13 - Certain Relationships and Related Transactions, and Director Independence.

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement for its 2020 Annual Meeting of Shareholders.

ITEM 14 - Principal Accounting Fees and Services.

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement for its 2020 Annual Meeting of Shareholders.

PART IV

ITEM 15 - Exhibits and Financial Statement Schedules.

(a) 1. The following portions of the Company's consolidated financial statements are set forth in Item 8 of this Annual Report:

(i) Consolidated Balance Sheets as of December 31, 2019 and 2018.
(ii) Consolidated Statements of Operations for each of the three years in the period ended December 31, 2019.
(iii) Consolidated Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 2019.
(iv) Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2019.
(v) Notes to Consolidated Financial Statements.
(vi) Report of Independent Registered Public Accounting Firm.

(a) 2. Financial Statement Schedules

All financial statement schedules are omitted as the information, if applicable, is presented in the consolidated financial statements or notes thereto.

(a) 3. Exhibits

3.1	Registrant's Restated Certificate of Incorporation, dated July 24, 2018, is incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018.
3.2	Registrant's Amended and Restated Bylaws are incorporated by reference to Exhibit 3.3 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2012.
4.1	Indenture, dated as of September 30, 2016, between Lakeland Bancorp, Inc. and U.S. Bank National Association, as Trustee, is incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 30, 2016
4.2	First Supplemental Indenture, dated as of September 30, 2016, between Lakeland Bancorp, Inc. and U.S. Bank National Association, as Trustee, is incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on September 30, 2016.
4.3	Description of the Registrant's Securities
10.1+	Lakeland Bancorp, Inc. 2018 Omnibus Equity Incentive Plan is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 11, 2018.
10.2+	Lakeland Bancorp, Inc. 2009 Equity Compensation Program, as amended and restated effective February 27, 2014, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 28, 2014.
10.3+	Employment Agreement, dated as of April 2, 2008 and executed on May 22, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Thomas J. Shara, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 28, 2008.
10.4+	Supplemental Executive Retirement Plan Agreement for Thomas J. Shara, effective as of April 2, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Thomas J. Shara is incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on May 28, 2008.
10.5+	Lakeland Bancorp, Inc. Directors' Deferred Compensation Plan, as amended and restated, is incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed with the SEC on December 30, 2008.
10.6+	Change in Control Agreement, dated as of June 12, 2009, among Lakeland Bancorp, Inc., Lakeland Bank and Ronald E. Schwarz, is incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.
10.7+	Somerset Hills Bancorp 2001 Combined Stock Option Plan is incorporated by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form S-8 filed with the SEC on June 3, 2013.
10.8+	Somerset Hills Bancorp 2007 Equity Incentive Plan is incorporated by reference to Exhibit 4.7 to the Registrant's Registration Statement on Form S-8 filed with the SEC on June 3, 2013.

10.9+	Somerset Hills Bancorp 2012 Equity Incentive Plan is incorporated by reference to Exhibit 4.8 to the Registrant's Registration Statement on Form S-8 filed with the SEC on June 3, 2013.
10.10+	Change of Control Agreement, dated October 31, 2013, among Lakeland Bancorp, Inc., Lakeland Bank and Timothy J. Matteson, is incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.
10.11+	Amendment, dated November 6, 2014, to Change in Control Agreement, dated October 31, 2013, among Lakeland Bancorp, Inc., Lakeland Bank and Timothy J. Matteson, as incorporated by reference to Exhibit 10.1 to the Registrants' Quarterly Report on Form 10-Q for the quarter ended September 30, 2014.
10.12+	Deferred Compensation Agreement, dated February 27, 2015, among Lakeland Bancorp, Inc., Lakeland Bank and Thomas J. Shara, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 2, 2015.
10.13+	Lakeland Bancorp, Inc. Elective Deferral Plan is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 20, 2015.
10.14+	Amendment, dated August 7, 2015, to Employment Agreement, dated April 2, 2008 and executed May 22, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Thomas J. Shara, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 7, 2015.
10.15+	Amendment, dated August 7, 2015, to Change in Control Agreement, dated June 12, 2009, among Lakeland Bancorp, Inc., Lakeland Bank and Ronald E. Schwarz, is incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the SEC on August 7, 2015.
10.16+	Amendment, dated August 7, 2015, to Change in Control Agreement, dated October 31, 2013, as amended, among Lakeland Bancorp, Inc., Lakeland Bank and Timothy J. Matteson, is incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2015.
10.17+	Change in Control Agreement, dated as of April 11, 2016, among Lakeland Bancorp, Inc., Lakeland Bank and James Nigro, is incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 10, 2016.
10.18+	Change in Control Agreement, dated as of March 15, 2017, among Lakeland Bancorp, Inc., Lakeland Bank and Thomas Splaine, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 16, 2017.
10.19	Master Agreement, dated October 31, 2017 among Lakeland Bancorp, Inc., Lakeland Bank and Fiserv Solutions, LLC, is incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017.
10.20+	Amended Change in Control Agreement, dated January 1, 2018, among Lakeland Bancorp, Inc., Lakeland Bank and Ellen Lalwani, is incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017.
10.21+	Change in Control Agreement, dated January 1, 2018, among Lakeland Bancorp, Inc., Lakeland Bank and John Rath, is incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017.
10.22+	Amendment, dated May 9, 2019, to Change in Control Agreement, dated June 12, 2009, among Lakeland Bancorp, Inc., Lakeland Bank and Ronald E. Schwarz, is incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 9, 2019.
10.23+	Change in Control Agreement, dated March 1, 2019, among Lakeland Bancorp, Inc., Lakeland Bank and Paul Ho Sing Loy, is incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 9, 2019.
21.1	Subsidiaries of Registrant.
23.1	Consent of KPMG LLP.
24.1	Power of Attorney.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS	Inline XBRL Instance Document (The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibits 101)

+ Denotes management contract or compensatory plan, contract or arrangement.

ITEM 16 – Form 10-K Summary.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAKELAND BANCORP, INC.

Dated: March 6, 2020

By: /s/ Thomas J. Shara
Thomas J. Shara
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Bruce D. Bohuny* Bruce D. Bohuny	Director	March 6, 2020
/s/ Mary Ann Deacon* Mary Ann Deacon	Chairman	March 6, 2020
/s/ Brian M. Flynn* Brian M. Flynn	Director	March 6, 2020
/s/ Mark J. Fredericks* Mark J. Fredericks	Director	March 6, 2020
/s/ Brian Gragnolati* Brian Gragnolati	Director	March 6, 2020
/s/ James E. Hanson II* James E. Hanson II	Director	March 6, 2020
/s/ Janeth C. Hendershot* Janeth C. Hendershot	Director	March 6, 2020
/s/ Lawrence R. Inserra, Jr.* Lawrence R. Inserra, Jr.	Director	March 6, 2020
/s/ Robert E. McCracken* Robert E. McCracken	Director	March 6, 2020
/s/ Robert B. Nicholson, III* Robert B. Nicholson, III	Director	March 6, 2020

Signature	Capacity	Date
/s/ Thomas J. Shara Thomas J. Shara	Director, President and Chief Executive Officer (Principal Executive Officer)	March 6, 2020
/s/ Thomas Splaine Thomas Splaine	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 6, 2020

*By: /s/ Thomas J. Shara
Thomas J. Shara
Attorney-in-Fact

March 6, 2020

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LAKELAND INVESTOR INFORMATION

STOCK LISTING

Common shares of Lakeland Bancorp, Inc., trade on the Nasdaq National Market under the symbol "LBAI."

DIVIDEND CALENDAR

Dividends on Lakeland Bancorp, Inc. common stock are customarily payable on or about the 15th of February, May, August and November.

REGISTRAR AND TRANSFER AGENT

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
1-800-937-5449
www.astfinancial.com

CORPORATE HEADQUARTERS

Lakeland Bancorp, Inc.
250 Oak Ridge Road
Oak Ridge, NJ 07438
973-697-2000

INFORMATION ON LAKELAND BANCORP, INC., CAN ALSO BE FOUND ON THE INTERNET AT LAKELANDBANK.COM

Lakeland Bancorp, Inc.

250 Oak Ridge Road | Oak Ridge, NJ 07438 | t: 973-697-2000 | LakelandBank.com | Stock symbol: LBAI