UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549
Form 10-K

(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, 2022.

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 check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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, 2022, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $901,705,000, based on the closing sale price as reported on the NASDAQ Global Select Market.

The number of shares outstanding of the registrant's common stock, as of February 22, 2023, was 64,893,556.

DOCUMENTS INCORPORATED BY REFERENCE:

None

LAKELAND BANCORP, INC.

Form 10-K Index

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 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," the "Bank" or "Lakeland Bank"). As of February 15, 2023, Lakeland operates 68 branch offices located throughout northern and central New Jersey and in Highland Mills, New York; six New Jersey regional commercial lending centers strategically located in our market area 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 nine community banks with an aggregate asset total of approximately $4.16 billion, including its most recent acquisition of 1st Constitution Bank and its parent, 1st Constitution Bancorp ("1st Constitution Bancorp"), which was completed on January 6, 2022. All of the acquired banks have been merged into Lakeland and the acquired holding companies, if applicable, have been merged into the Company.

On September 26, 2022, the Company entered into a definitive merger agreement with Provident Financial Services, Inc. ("Provident") pursuant to which the companies will combine in an all-stock merger. Under the terms of the merger agreement, the Company will merge with and into Provident, with Provident as the surviving corporation, and Lakeland Bank will merge with and into Provident Bank, with Provident Bank as the surviving bank. Following the closing of the transaction, Lakeland shareholders will receive 0.8319 shares of Provident common stock for each share of Lakeland common stock they own. Upon completion of the transaction, Provident shareholders will own approximately 58% and Lakeland shareholders will own approximately 42% of the combined company. As of September 26, 2022, the transaction is valued at approximately $1.3 billion on a fully diluted basis. The combined company is expected to have more than $25 billion in total assets, $18 billion in total loans and $20 billion in total deposits. The transaction has been approved by the boards of directors and shareholders of both companies and is expected to close in the second quarter of 2023, subject to satisfaction of customary closing conditions, including receipt of regulatory approvals.

At December 31, 2022, Lakeland Bancorp had total consolidated assets of $10.78 billion, total consolidated deposits of $8.57 billion, total consolidated loans, net of the allowance for credit losses on loans, of $7.80 billion and total consolidated stockholders' equity of $1.11 billion.

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

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, residential mortgage loans, Small Business Administration ("SBA") loans and merchant credit card services. The Company participated in the SBA's Paycheck Protection Program ("PPP") beginning in 2020 and continuing in 2021. Through Lakeland's equipment finance division, the Company provides a financing solution to small and medium-sized companies that 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 online banking, mobile banking and wire transfer 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, online 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, the Bank provides commercial title insurance services through Lakeland Title Group LLC and life insurance products through Lakeland Financial Services Agency, Inc.

Competition

Lakeland faces intense 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, fintechs 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 or intensify 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.

Human Capital Resources

At December 31, 2022, the Company employed 911 associates, including 51 part-time associates, of which approximately 68% are women. The Company employed 717 associates, including 36 part-time associates at December 31, 2021. As a financial institution, approximately 53% of our associates are located at branch or loan production offices and the remainder are located at our administrative offices. The success of our business is highly dependent on our associates, who are dedicated to our mission to inspire and enable the communities we serve to achieve financial stability and success. We seek to hire well-qualified associates to sustain and build on our culture of service and performance. Our selection and promotion processes are without bias and include the active recruitment of minorities and women. None of our associates are covered by a collective bargaining agreement.

We encourage the growth and development of our associates and strive to fill positions by promotion and internal transfer whenever possible. Continual learning and career development is advanced through annual performance and development conversations between associates and their managers, internally developed training programs, customized corporate training engagements and educational reimbursement programs. Our Leader Engagement and Development (LEAD) Program was launched in 2018 to foster leadership abilities and cultivate effective management approaches. To date, 51 associates have completed the program. Reimbursement is available to associates enrolled in pre-approved degree or certification programs at accredited institutions that teach skills or knowledge relevant to our business, in compliance with Section 127 of the Internal Revenue Code, and for seminars, conferences and other training events associates attend in connection with their job duties or professional certification requirements.

The safety, health and wellness of our associates is a top priority. On an ongoing basis, we promote the health and wellness of our associates by strongly encouraging work-life balance, offering flexible work schedules, keeping the associate portion of health care premiums to a minimum and sponsoring various wellness programs, whereby associates are encouraged to incorporate healthy habits into their daily routines.

In 2020, we appointed our first Chief Diversity Officer, with a mandate to focus on workforce diversity, vendor/supplier diversity and cultivating more diverse leadership, among other vital issues. We sponsor Share Your Voice "listening" roundtables for associates, with the assistance of outside experts. A Diversity Task Force was created to give associates more opportunity for input into relevant issues. We provided associates with access to information and assistance on topics ranging from diversity to wellness, parenting and other personal issues and concerns.

Associate retention helps us operate efficiently and achieve our business objectives. We provide competitive wages, annual bonuses, stock awards, a 401(k) Plan with an employer matching contribution, healthcare and insurance benefits, health savings accounts, flexible spending accounts, paid time off, family leave, wellness program and an employee assistance program. At December 31, 2022, approximately 29% of our current staff had been with us for 10 years or more.

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.

Additionally, with the closing of the acquisition of 1st Constitution Bancorp and 1st Constitution Bank on January 6, 2022, the Company's consolidated assets exceed $10 billion, which subjects the Company and the Bank to increased supervision and regulation. In particular, Lakeland is now subject to the direct supervision of and examination by the Consumer Financial Protection Bureau ("CFPB"), rather than the FDIC, with respect to consumer protection laws. Additionally, under existing federal laws and regulations, Lakeland is now subject to (1) an interchange fee cap for electronic debit transactions mandated by a provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") known as the Durbin Amendment, (2) more stringent compliance requirements under the "Volcker Rule," a provision of the Dodd-Frank Act that prohibits banking entities from engaging in proprietary trading or investing in or sponsoring hedge funds or private equity funds, and (3) higher FDIC assessment rates, as further described below. Certain enhanced prudential standards also now are applicable such as additional risk management requirements, both from a framework and corporate governance perspective. These and other supervisory and regulatory implications of crossing the $10 billion asset threshold have and will likely continue to result in increased regulatory costs, though the Company and the Bank have incurred increased regulatory costs in connection with their preparations over the last several years for exceeding the threshold.

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.

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. The Company has also elected "financial holding company" status, which allows it to engage in a broader array of financial activities than a standard bank holding company. 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

Federal law and Federal Reserve Board policy 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. 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.

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. 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 or if the subsidiary is a "financial subsidiary" that engages in an activity that is not permitted for the bank directly.

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. Receipt of a "Needs to Improve" or "Substantial Noncompliance" ratings can, among other things, obstruct regulatory approval for new branches and mergers. The CRA 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, free of charge, 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 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 credit 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 activities as a financial holding company 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.

Pursuant to the December 2010 capital framework established by the Basel Committee on Banking Supervision (the "Basel Rules"), the Company and Lakeland are required to maintain the following minimum capital ratios, expressed as a percentage of risk-weighted assets:

- Common Equity Tier 1 Capital Ratio of 4.5% (this is 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, the Company and Lakeland are subject to a leverage ratio requirement of 4.0% (calculated as Tier 1 capital to average consolidated assets as reported on the consolidated financial statements).

The Basel Rules also require the Company and Lakeland 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:

- 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 provide for several deductions from and adjustments to CET1, which were phased in as of January 1, 2018. For example, mortgage servicing rights and deferred tax assets dependent upon future taxable income were required to be deducted from CET1 to the extent that any one of those categories exceeds 10% of CET1 or all such categories in the aggregate exceeded 15% of CET1. However, subsequent regulatory amendments raised the limit on mortgage servicing rights and deferred tax assets to 25% of CETI and removed the aggregate limit.

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 the Company and Lakeland 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 the Company, were permitted to 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, 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.

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.

As of December 31, 2022, the Company and Lakeland met all capital requirements under the Basel Rules as then in effect, including the capital conservation buffer requirement. The Bank was classified as "well capitalized" on that date.

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 $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.

Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio, that is, the ratio of the DIF to insured deposits.

Under the FDIC's risk-based assessment system, insured institutions deemed less risky pay lower FDIC assessments. With the closing of the acquisition of 1st Constitution Bank on January 6, 2022, Lakeland's assets exceed $10 billion. Assessments for "large institutions," which are institutions such as Lakeland reporting assets of $10 billion or more in their quarterly call reports for four consecutive quarters, are primarily based on a scorecard approach by the FDIC, including factors such as examination ratings and modeling measuring the institution's ability to withstand asset-related and funding-related stress and potential loss to the DIF should the bank fail.

Lakeland paid $2.7 million and $2.3 million in total FDIC assessments in 2022 and 2021, respectively. The FDIC has authority to increase insurance assessments and adopted a final rule in October 2022 to increase initial base deposit insurance assessment rates by 2 basis points beginning in the first quarterly assessment period of 2023. As a result, effective January 1, 2023, assessment rates (inclusive of possible adjustments specified by the regulations) for institutions with greater than $10 billion of total assets, such as Lakeland, will range from 2.5 to 42 basis points.

In October 2022, the FDIC also adopted a final rule, effective January 1, 2023, to incorporate updated accounting standards into deposit insurance assessments applicable to all large insured depository institutions that have adopted FASB's ASU No. 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02"). It is difficult to estimate the effect of this rule on insurance assessment rates and the management of the Company cannot predict what assessment rates will be in the future. Any significant increases in insurance premiums may have an adverse effect on the Company's operating expenses and results of operations.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement entered into with the FDIC.

CARES Act

The Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020 and provided over $2.0 trillion in emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the SBA to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program ("PPP"). As a qualified SBA lender, we were automatically authorized to originate PPP loans. The SBA guarantees 100% of the PPP loans made to eligible borrowers.

Section 4013 of the CARES Act, as interpreted by the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus (Revised)" (the "Revised Statement"), dated April 17, 2020, includes criteria that enable financial institutions to exclude from troubled debt restructuring ("TDR") status loans that were modified in connection with COVID-19 and met certain other criteria, for a limited period of time. The Consolidated Appropriations Act, 2021, signed into law on December 27, 2020, extended the provisions in Section 4013 of the Cares Act to January 1, 2022. If the criteria were not met under either Section 4013 or the Revised Statement, banks were required to follow their existing accounting policies to determine whether COVID-related modifications should be accounted for as a TDR.

The CARES Act also provided financial institutions with the option to defer adoption of the Financial Accounting Standards Board's Accounting Standard Update ("ASU") 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326) ("ASU 2016-13") until the earlier of the end of the national emergency or December 31, 2020. However, the Company adopted this standard as of December 31, 2020, and applied it retroactively to January 1, 2020.

On March 31, 2022, FASB issued ASU 2022-02, which eliminates the TDR guidance for all institutions that adopted ASU 2016-13 and enhances financial statement disclosure requirements for loan modifications to borrowers experiencing financial difficulty. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods.

Change in Control Act

Under the Change in Bank Control Act, no person (including a company or other business entity) may acquire "control" of a bank or bank holding company, unless the appropriate federal agency has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition. The agency takes into consideration certain factors, including the competence, experience, integrity and financial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or power to vote 25% or more of any class of voting stock. There is a rebuttable presumption of control upon the acquisition of 10% or more of a class of voting stock under certain circumstances, such as where the company involved has its shares registered under the Securities Exchange Act of 1934. Any "company", as defined in the Bank Holding Company Act of 1956, would be required to receive the prior approval of the Federal Reserve Board to acquire "control" of the company or bank, as defined in that statute and Federal Reserve Board regulations, and would then be regulated as a bank holding company.

New Jersey law specifies similar prior approval requirements by the New Jersey Department of Banking and Insurance for acquisitions of New Jersey banks or holding companies.

U.S. Department of Justice

On September 28, 2022, Lakeland Bank announced it had entered into a settlement with the U.S. Department of Justice ("DOJ") to resolve allegations that the Bank had violated fair lending laws in the Newark, New Jersey Metro Division.

For the five year period beginning September 28, 2022, the Bank will provide $12 million in loan subsidies in Majority Black and Hispanic Census Tracts ("MBHCTs") within Essex, Morris, Somerset, Sussex and Union Counties in New Jersey (the "Newark Lending Area"), $750,000 in additional marketing of mortgage lending services and products in the Newark Lending Area, $400,000 for community development partnerships to serve these MBHCTs in the Newark Lending Area and establish two branches within the MBHCTs, including one in Newark, New Jersey and one in the Newark Lending Area. Lakeland will also conduct twenty outreach events for real estate brokers and agents, developers and public or private entities engaged in residential real estate-related business and assign four additional loan officers to support these commitments.

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.

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.

Merger Risks Related to the Merger of the Company with Provident

Because the market price of Provident common stock may fluctuate, the Company's shareholders cannot be certain of the market value of the merger consideration they will receive.

In the merger, each share of Company common stock that is issued and outstanding immediately prior to the effective time (except for certain excluded shares) will be converted into 0.8319 of a share of Provident common stock. This exchange ratio is fixed and will not be adjusted for changes in the market price of either Provident common stock or Company common stock. Changes in the price of Provident common stock between now and the time of the merger will affect the value that the Company's shareholders will receive in the merger. However, neither Provident nor the Company is permitted to terminate the merger agreement as a result of any increase or decrease in the market price of Provident common stock or Company common stock.

Stock price changes may result from a variety of factors, including general market and economic conditions, changes in Provident's and the Company's businesses, operations and prospects, volatility in the prices of securities in global financial markets, including market prices for the common stock of other banking companies, the effects of the COVID-19 pandemic, and changes in laws and regulations, many of which are beyond Provident's and the Company's control. Accordingly, at the time of the special meeting of shareholders of the Company to vote on the merger agreement, shareholders did not know the market value of the consideration that they will receive at the effective time of the merger.

The market price of Provident common stock after the merger may be affected by factors different from those currently affecting the shares of Provident common stock or Company common stock.

Following the merger, shareholders of the Company will become Provident stockholders. Provident's business differs from that of the Company and certain adjustments may be made to Provident's business as a result of the merger. Accordingly, the results of operations of the combined company and the market price of Provident common stock after the completion of the merger may be affected by factors different from those currently affecting the independent results of operations of each of Provident and the Company.

Issuance of shares of Provident common stock in connection with the merger may adversely affect the market price of Provident common stock.

In connection with the payment of the merger consideration, Provident will issue shares of Provident common stock to the Company's shareholders. The issuance of these new shares of Provident common stock may result in fluctuations in the market price of Provident common stock, including a stock price decrease.

Provident and the Company are expected to incur substantial costs related to the merger and integration.

Provident and the Company have incurred and expect to incur a number of non-recurring costs associated with the merger. These costs include legal, financial advisory, accounting, consulting and other advisory fees, severance/employee benefit-related costs, public company filing fees and other regulatory fees, financial printing and other printing costs and other related costs. Some of these costs are payable by either Provident or the Company regardless of whether the merger is completed.

In addition, the combined company will incur integration costs following the completion of the merger as Provident and the Company integrate their businesses, including facilities and systems consolidation costs and employment-related costs. Provident and the Company may also incur additional costs to maintain employee morale and to retain key employees. There are a large number of processes, policies, procedures, operations, technologies and systems that may need to be integrated, including purchasing, accounting and finance, payroll, compliance, treasury management, branch operations, vendor management, risk management, lines of business, pricing and benefits. While Provident and the Company have assumed that a certain level of costs will be incurred, there are many factors beyond their control that could affect the total amount or the timing of the integration costs. Moreover, many of the costs that will be incurred are, by their nature, difficult to estimate accurately. These integration costs may result in the combined company taking charges against earnings following the completion of the merger, and the amount and timing of such charges are uncertain at present. There can be no assurances that the expected benefits and efficiencies related to the integration of the businesses will be realized to offset these transaction and integration costs over time.

Combining Provident and the Company may be more difficult, costly or time-consuming than expected, and Provident and the Company may fail to realize the anticipated benefits of the merger.

The merger will combine two financial institutions of relatively similar asset size. The success of the merger will depend, in part, on the ability to realize the anticipated cost savings from combining the businesses of Provident and the Company. To realize the anticipated benefits and cost savings from the merger, Provident and the Company must successfully integrate and combine their businesses in a manner that permits those cost savings to be realized, without adversely affecting current revenues and future growth. If Provident and the Company are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected. In addition, the actual cost savings of the merger could be less than anticipated, and integration may result in additional and unforeseen expenses.

An inability to realize the full extent of the anticipated benefits of the merger and the other transactions contemplated by the merger agreement, as well as any delays encountered in the integration process, could have an adverse effect upon the revenues, levels of expenses and operating results of the combined company following the completion of the merger, which may adversely affect the value of the common stock of the combined company following the completion of the merger.

Provident and the Company have operated and, until the completion of the merger, must continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the companies' ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. Integration efforts between the two companies may also divert management attention and resources. These integration matters could have an adverse effect on each of Provident and the Company during this transition period and on the combined company for an undetermined period after completion of the merger.

Furthermore, the board of directors and executive leadership of the combined company will consist of former directors and executive officers from each of Provident and the Company. Combining the boards of directors and management teams of each company into a single board and a single management team could require the reconciliation of differing priorities and philosophies.

The future results of the combined company following the merger may suffer if the combined company does not effectively manage its expanded operations.

Following the merger, the size of the business of the combined company will increase beyond the current size of either Provident's or the Company's business. The combined company's future success will depend, in part, upon its ability to manage this expanded business, which may pose challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. The combined company may also face increased scrutiny from governmental authorities as a result of the increased size of its business. There can be no assurances that the combined company will be successful or that it will realize the expected operating efficiencies, revenue enhancement or other benefits currently anticipated from the merger.

The combined company may be unable to retain Provident and/or Company personnel successfully after the merger is completed.

The success of the merger will depend in part on the combined company's ability to retain the talents and dedication of key employees currently employed by Provident and the Company. It is possible that these employees may decide not to remain with Provident or the Company, as applicable, while the merger is pending or with the combined company after the merger is consummated. If Provident and the Company are unable to retain key employees, including management, who are critical to the successful integration and future operations of the companies, Provident and the Company could face disruptions in their operations, loss of existing customers, loss of key information, expertise or know-how and unanticipated additional recruitment costs. In addition, following the merger, if key employees terminate their employment, the combined company's business activities may be adversely affected, and management's attention may be diverted from successfully hiring suitable replacements, all of which may cause the combined company's business to suffer. Provident and the Company also may not be able to locate or retain suitable replacements for any key employees who leave either company.

Regulatory approvals may not be received, may take longer than expected, or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the merger.

Before the merger and other transactions contemplated by the merger agreement may be completed, various approvals, consents and non-objections must be obtained from the Federal Reserve Board, the FDIC and the New Jersey Department of Banking and Insurance and other regulatory authorities in the United States. In determining whether to grant these approvals, such regulatory authorities consider a variety of factors, including the regulatory standing of each party. These approvals could be delayed or not obtained at all, including due to an adverse development in either party's regulatory standing or in any other factors considered by regulators when granting such approvals; governmental, political or community group inquiries, investigations or opposition; or changes in legislation or the political environment generally.

Any approvals that are granted may impose terms and conditions, limitations, obligations or costs, or place restrictions on the conduct of the combined company's business or require changes to the terms of the transactions contemplated by the merger agreement. There can be no assurance that regulators will not impose any such conditions, limitations, obligations or restrictions and that such conditions, limitations, obligations or restrictions will not have the effect of delaying the completion of any of the transactions contemplated by the merger agreement, imposing additional material costs on or materially limiting the revenues of the combined company following the merger or otherwise reduce the anticipated benefits of the merger if the merger were consummated successfully within the expected timeframe. In addition, there can be no assurance that any such conditions, terms, obligations or restrictions will not result in the delay or abandonment of the merger. Additionally, the completion of the merger is conditioned on the absence of certain orders, injunctions or decrees by any court or regulatory agency of competent jurisdiction that would prohibit or make illegal the completion of any of the transactions contemplated by the merger agreement.

In addition, despite the parties' commitments to using their reasonable best efforts to comply with conditions imposed by regulators, under the terms of the merger agreement, neither Provident nor the Company, nor any of their respective subsidiaries, is permitted (without the written consent of the other party), to take any action, or commit to take any action, or agree to any condition or restriction, in connection with obtaining the required permits, consents, approvals and authorizations of governmental entities that would reasonably be expected to have a material adverse effect on the combined company and its subsidiaries, taken as a whole, after giving effect to the merger.

As a result of the mergers, the combined company will become subject to additional requirements and restrictions imposed by the U.S. Department of Justice (the "DOJ").

On September 28, 2022, Lakeland Bank entered into a consent order with the DOJ to resolve allegations of violations of the Fair Housing Act and Equal Credit Opportunity Act within the Newark, NJ-PA Metro Division, as constituted in 2015. The DOJ's consent order was approved by the U.S. District Court for the District of New Jersey on September 29, 2022.

The DOJ's consent order requires Lakeland Bank to, among other things, invest $12 million over five years in a loan subsidy fund to increase credit opportunities to residents of majority-Black and Hispanic neighborhoods in Essex, Morris, Somerset, Sussex and Union Counties, New Jersey (the "Newark Lending Area"), and devote a minimum of $400,000 over five years toward community development partnership contributions in the Newark Lending Area and $150,000 per year over five years toward advertising, community outreach, and credit repair and education in the Newark Lending Area. Pursuant to the terms of the consent order, Lakeland Bank will also establish two new full-service branches in majority-Black and Hispanic census tracts: one in Newark, New Jersey and one in Lakeland Bank's Newark Lending Area. In addition, Lakeland Bank must continue to maintain its full-time Community Development Officer position to oversee these efforts throughout the term of the consent order.

Under the terms of the DOJ's consent order, the combined bank will assume the consent order in connection with the merger. Although both Provident and the Company are committed to full compliance with the DOJ's consent order, achieving such compliance will require significant management attention from the Company and, following the merger, the combined company, and may cause the Company and, following the merger, the combined company to incur unanticipated costs and expenses. Actions taken to achieve compliance with the DOJ's consent order may affect the Company's and the combined company's business or financial performance and may require the Company or the combined company to reallocate resources away from existing businesses or to undertake significant changes to their respective businesses, operations, products and services and risk management practices. In addition, the Company and its subsidiaries or, following the merger, the combined company and its subsidiaries could be subject to other enforcement actions relating to the alleged violations resolved by the DOJ's consent order.

Certain of the Company's directors and executive officers may have interests in the merger that may differ from, or are in addition to, the interests of the Company's shareholders.

Shareholders should be aware that some of the Company's directors and executive officers may have interests in the merger and have arrangements that are different from, or in addition to, those of shareholders of the Company generally. These interests and arrangements may create potential conflicts of interest.

The merger agreement may be terminated in accordance with its terms and the merger may not be completed.

The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include approval by Provident's and the Company's shareholders (which occurred on February 1, 2023); SEC registration of the shares of Provident common stock to be issued in the merger; authorization for listing on the New York Stock Exchange of the shares of Provident common stock to be issued in the merger, subject to official notice of issuance; and the receipt of required regulatory approvals. Each party's obligation to complete the merger is also subject to certain additional customary conditions, including the accuracy of the representations and warranties of the other party and the performance by the other party of its obligations under the merger agreement.

These conditions to the closing may not be fulfilled in a timely manner or at all, and, accordingly, the merger may not be completed. In addition, the parties can mutually decide to terminate the merger agreement at any time or Provident or the Company may elect to terminate the merger agreement in certain other circumstances.

Failure to complete the merger could negatively impact Provident or the Company.

If the merger is not completed for any reason, there may be various adverse consequences and Provident and/or the Company may experience negative reactions from the financial markets and from their respective customers and employees. For example, Provident's or the Company's businesses may be impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. Additionally, if the merger agreement is terminated, the market price of Provident common stock or Company common stock could decline to the extent that current market prices reflect a market assumption that the merger will be beneficial and will be completed. Provident and/or the Company also could be subject to litigation related to any failure to complete the merger or to proceedings commenced against Provident or the Company to perform their respective obligations under the merger agreement. If the merger agreement is terminated under certain circumstances, either Provident or the Company may be required to pay a termination fee of $50 million to the other party.

Additionally, each of Provident and the Company has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the merger agreement, as well as the costs and expenses of preparing, filing, printing and mailing a joint proxy statement/prospectus, and all filing and other fees paid in connection with the merger. If the merger is not completed, Provident and the Company would have to pay these expenses without realizing the expected benefits of the merger.

In connection with the merger, Provident will assume the Company's outstanding debt obligations, and the combined company's level of indebtedness following the completion of the merger could adversely affect the combined company's ability to raise additional capital and to meet its obligations under its existing indebtedness.

In connection with the merger, Provident will assume the Company's outstanding indebtedness. Provident's existing debt, together with any future incurrence of additional indebtedness, and the assumption of the Company's outstanding indebtedness, could have important consequences for the combined company's creditors and the combined company's stockholders. For example, it could:

- limit the combined company's ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;
- restrict the combined company from making strategic acquisitions or cause the combined company to make non-strategic divestitures;
- restrict the combined company from paying dividends to its stockholders;
- increase the combined company's vulnerability to general economic and industry conditions; and
- require a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on the combined company's indebtedness, thereby reducing the combined company's ability to use cash flows to fund its operations, capital expenditures and future business opportunities.

Provident and the Company will be subject to business uncertainties and contractual restrictions while the merger is pending.

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Provident and the Company. These uncertainties may impair Provident's or the Company's ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others that deal with Provident or the Company to seek to change existing business relationships with Provident or the Company. In addition, subject to certain exceptions, Provident and the Company have each agreed to operate its business in the ordinary course in all material respects and to refrain from taking certain actions that may adversely affect its ability to consummate the transactions contemplated by the merger agreement on a timely basis without the consent of the other party. These restrictions may prevent Provident or the Company from pursuing attractive business opportunities that may arise prior to the completion of the merger.

The announcement of the proposed merger could disrupt Provident's and the Company's relationships with their customers, suppliers, business partners and others, as well as their operating results and businesses generally.

Whether or not the merger is ultimately consummated, as a result of uncertainty related to the proposed transactions, risks relating to the impact of the announcement of the merger on Provident's and the Company's businesses include the following:

- their employees may experience uncertainty about their future roles, which might adversely affect Provident's or the Company's ability to retain and hire key personnel and other employees;
- customers, suppliers, business partners and other parties with which Provident and the Company maintain business relationships may experience uncertainty about their respective futures and seek alternative relationships with third parties, seek to alter their business relationships with Provident and the Company or fail to extend an existing relationship with Provident and the Company; and
- Provident and the Company have each expended and will continue to expend significant costs, fees and expenses for professional services and transaction costs in connection with the proposed merger.

If any of the aforementioned risks were to materialize, they could lead to significant costs which may impact each party's results of operations and financial condition.

The merger agreement limits Provident's and the Company's respective abilities to pursue alternatives to the merger and may discourage other companies from trying to acquire Provident or the Company.

The merger agreement contains "no shop" covenants that restrict each of Provident's and the Company's ability to, directly or indirectly, among other things, initiate, solicit, knowingly encourage or knowingly facilitate, inquiries or proposals with respect to, or, subject to certain exceptions generally related to the exercise of fiduciary duties by Provident's and the Company's respective board of directors, engage in any negotiations concerning, or provide any confidential or non-public information or data relating to, any alternative acquisition proposals. These provisions, which include a $50 million termination fee payable under certain circumstances, may discourage a potential third-party acquirer that might have an interest in acquiring all or a significant part of Provident or the Company from considering or proposing that acquisition.

The shares of Provident common stock to be received by Company shareholders as a result of the merger will have different rights from the shares of Company common stock.

Following the merger, the Company's shareholders will become Provident stockholders and their rights as stockholders will be governed by Delaware law and the governing documents of the combined company following the merger. The rights associated with Delaware corporation law and Provident common stock are different from the rights associated with Company common stock.

Holders of Company common stock will have reduced ownership and voting interest in the combined company after the consummation of the merger and will exercise less influence over management.

Shareholders of Provident and the Company currently have the right to vote in the election of the board of directors and on other matters affecting Provident and the Company, respectively. When the merger is completed, each Provident stockholder and each Company shareholder will become a holder of common stock of the combined company, with a percentage ownership of the combined company that is smaller than the holder's percentage ownership of either Provident or the Company individually, as applicable, prior to the consummation of the merger. Because of this, the Company's shareholders may have less influence on the management and policies of the combined company than they now have on the management and policies of the Company.

Shareholders of the Company will not have appraisal rights or dissenters' rights in the merger.

Appraisal rights (also known as dissenters' rights) are statutory rights that, if applicable under law, enable stockholders or shareholders to dissent from an extraordinary transaction, such as a merger, and to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to stockholders in connection with the extraordinary transaction.

Under Title 14A, Chapter 11 of the New Jersey Business Corporation Act, shareholders have the right to dissent from any plan of merger or consolidation to which the corporation is a party, and to demand payment for the fair value of their shares. However, unless the corporation's certificate of incorporation otherwise provides, dissenters' rights of appraisal do not apply to any plan of merger or consolidation with respect to shares (i) of a class or series which is listed on a national securities exchange or is held of record by not less than 1,000 holders or (ii) for which, pursuant to the plan of merger or consolidation, such shareholder will receive (a) cash, (b) shares, obligations or other securities which, upon consummation of the merger or consolidation, will either be listed on a national securities exchange or held of record by not less than 1,000 holders, or (c) cash and such securities. The Company's certificate of incorporation is silent as to dissenters' rights of appraisal. The Company's common stock is currently listed on Nasdaq, a national securities exchange, and is expected to continue to be so listed until the completion of the merger. In addition, as merger consideration, the shareholders of the Company will receive shares of Provident common stock, which is currently listed on the NYSE, a national securities exchange, and is expected to be listed at the effective time of the merger. Accordingly, holders of Company common stock are not entitled to any dissenters' rights of appraisal in connection with the merger.

Litigation related to the merger has been filed against Provident, the Provident board of directors, the Company and the Company's board of directors, and additional litigation may be filed against the Company, the Company's board of directors, Provident and the Provident board of directors in the future, which could prevent or delay the completion of the merger, result in the payment of damages or otherwise negatively impact the business and operations of Provident and the Company.

Litigation related to the merger has been filed against Provident, the Provident board of directors, the Company and the Company's board of directors, and additional litigation may be filed against the Company, the Company's board of directors, Provident and the Provident board of directors in the future. The outcome of any litigation is uncertain. One of the conditions to the closing is that there must be no order, injunction or decree issued by any court or governmental entity of competent jurisdiction or other legal restraint preventing the consummation of the merger or any of the other transactions contemplated by the merger agreement. If any plaintiff were successful in obtaining an injunction prohibiting Provident or the Company from completing the merger or any of the other transactions contemplated by the merger agreement, then such injunction may delay or prevent the effectiveness of the merger and could result in significant costs to Provident and/or the Company, including costs associated with the indemnification of directors and officers of each company. Provident and the Company may incur costs in connection with the defense or settlement of any stockholder or shareholder lawsuits filed in connection with the merger. Further, such lawsuits and the defense or settlement of any such lawsuits may have an adverse effect on the financial condition and results of operations of Provident and the Company and could prevent or delay the completion of the merger.

Credit Risks

Our allowance for credit losses on loans may not be adequate to cover actual losses.

Like all commercial banks, Lakeland Bank maintains an allowance for credit losses on loans to provide for loan defaults and non-performance. If our allowance for credit losses on loans is not adequate to cover actual loan losses, we may be required to significantly increase future provisions for credit losses on loans, which could materially and adversely affect our operating results. The measurement of all expected credit losses for financial instruments held at the reporting date is based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions, such as Lakeland, and other organizations now use forward-looking information to better inform their credit loss estimates.

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) a 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 uses 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. 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. The Company also considers five standard qualitative general reserve factors ("qualitative adjustments"): nature and volume of loans, lending management, policy and procedures, independent review and changes in environment. Qualitative adjustments are designed to address risks that are not captured in the quantitative reserves ("quantitative reserve"). Other qualitative adjustments or model overlays may also be recorded based on expert credit judgment in circumstances where, in the Company's view, the standard qualitative reserve factors do not capture all relevant risk factors. Federal regulatory agencies, as an integral part of their examination process, review our loans and the corresponding allowance for credit losses. While we believe that our allowance for credit losses on loans in relation to our current loan portfolio is adequate to cover current and expected losses, we cannot assure you that we will not need to increase our allowance for credit losses on loans or that the regulators will not require us to increase this allowance. Future increases in our allowance for credit losses on loans could materially and adversely affect our earnings and profitability.

Under the CECL model, we are 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 previous GAAP, which delayed recognition until it was probable a loss had been incurred. Accordingly, the adoption of the CECL model significantly affected how we determined our allowance for credit losses on loans and may create more volatility in the level of our allowance for credit losses.

Any future quarterly changes to our allowance will depend on the current state of the economy, forecasted macroeconomic conditions, the composition and performance of our loan portfolio at the time and other factors captured through qualitative adjustments, including idiosyncratic factors.

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 34% of total risk-based capital at December 31, 2022. The Bank's total reported CRE loans to total capital was 411% at December 31, 2022, while the Bank's CRE portfolio has increased by 55% over the preceding 36 months and includes the 1st Constitution acquisition.

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 "Item 1. Business - Supervision and Regulation - Capital Requirements" 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 credit losses on loans.

Liquidity and Interest Rate Risks

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

Net interest income is the Company's largest source of income. Changes in interest rates could materially affect the amount of interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, which may affect our net interest spread and other elements of net income. The Company’s interest rate sensitivity is discussed in more detail in Item 7 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and is the primary market risk to its condition and operations.

Changes in market interest rates may also affect the demand for the Company’s products and services, the Company’s ability to originate real estate loans, competition for deposits, supply conditions in the U.S., financial and capital markets, levels of prepayments, cash flows, the value of its assets, its ability to realize gains from the sale of assets, and loan delinquencies and defaults, all of which ultimately affect earnings. Changes in interest rates may also affect the market value of the Company’s investment securities portfolio, which may affect the level and adequacy of its regulatory capital.

During 2022, in response to accelerated inflation, the Federal Reserve implemented monetary tightening policies, resulting in significantly increased interest rates. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. In a rising rate environment, demand for loans may decrease and loans with adjustable interest rates are more likely to experience a higher rate of default. Additionally, changes in interest rates also affect the fair value of the securities portfolio. Generally, the value of securities moves inversely with changes in interest rates.

Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. In addition, in a falling rate environment, or the recent pandemic-related environment where the Federal Reserve held the federal reference rate near 0.00%, loans may be prepaid sooner than we expect, which could result in a delay between when we receive the prepayment and when we are able to redeploy the funds into new interest-earning assets and in a decrease in the amount of interest income we are able to earn on those assets.

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.

Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet.

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

Our ability to obtain funding from the 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 and liquidity.

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.

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"). The use of LIBOR in new contracts was discontinued on December 31, 2021. Certain USD LIBOR tenors will continue to be published on a representative basis until June 30, 2023. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, subordinated debentures or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally.

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. The Company has approved the use of Term SOFR as the lead base case index to replace LIBOR for pricing of new contracts starting in 2022, with Daily Simple SOFR as an alternate. The Company continues to monitor market adoption of alternate index rates as information becomes available or as requested by customers or other counterparties.

We have a small 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 additional costs and risk. As of December 31, 2022, approximately $924.2 million, or 75% of the Company's portfolio of LIBOR-based loans, has been paid off or converted with approximately $309.2 million in LIBOR-based commercial loans and $4.7 million in LIBOR-based residential loans remaining. The Company is focused on converting the majority of these loans to one month term SOFR, working with customers, counsel, and its core loan servicing provider. 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, which could reduce our earnings.

As of December 31, 2022, the Company had approximately $1.98 billion in its investment portfolio, with $1.05 billion designated as available for sale and $923.3 million designated as held to maturity. For securities available for sale, Management determines if impairment is related to credit loss or non-credit loss. If an assessment of the security indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security, and if the present value of cash flows is less than the amortized cost basis, a credit loss exists and an allowance is created, limited by the amount that the fair value is less than the amortized cost basis. Held to maturity securities are evaluated under the allowance for credit losses model where the allowance is initially recognized upon acquisition of the securities and subsequently remeasured on a recurring basis. Held to maturity securities are charged off against the allowance when deemed to be uncollectible and adjustments to the allowance are reported as a component of credit loss expense. If the credit loss expense 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.

The Company's investment in equity securities and non-investment grade debt securities present heightened credit and price risks. Under accounting standards, equity gains and losses are recorded to current period operating results. The Company has an investment in the stock of the Federal Home Loan Bank of New York ("FHLB") which could result in write-down in the event of impairment.

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 our business and our reputation. 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, 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 Company and the Bank are subject to more stringent capital and liquidity requirements.

More stringent capital requirements have been imposed 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 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 "Item 1. 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.

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. We are also subject to numerous laws and regulations designed to protect consumers. The Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. 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 New Jersey Department of Banking and Insurance, the FDIC and the Federal Reserve Board periodically examine our business, including our compliance with laws and regulations, and the Consumer Financial Protection Bureau (the "CFPB") has the authority to examine us for compliance with federal consumer financial laws. The U.S. Department of Justice also has enforcement authority over fair lending laws. If a regulator were to determine that any aspect of our operations had become unsatisfactory or were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate, including enjoining "unsafe or unsound" practices, requiring affirmative action to correct any conditions resulting from any violation or practice, issuing an administrative order that can be judicially enforced, directing an increase in our capital, restricting our growth (including restrictions on mergers and acquisitions activity, geographic expansion or entering into new lines of business), assessing civil monetary penalties against our officers or directors, removing officers and directors or, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, terminating our deposit insurance and placing us into receivership or conservatorship. If we become subject to any regulatory actions, it could have a material adverse effect on our business, results of operations, financial condition and growth prospects. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition or results of operations.

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 "Item 1. 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.

The Company is subject to heightened regulatory requirements as a result of total assets exceeding $10 billion.

With the closing of the acquisition of 1st Constitution Bancorp on January 6, 2022, the Company's total assets exceed $10 billion. Banks with assets in excess of $10 billion are subject to requirements imposed by the Dodd-Frank Act and its implementing regulations, including the examination authority of the CFPB to assess compliance with Federal consumer financial laws, imposition of higher FDIC premiums, reduced debit card interchange fees and enhanced risk management frameworks, all of which increase operating costs and reduce earnings. In addition, in accordance with a memorandum of understanding entered into between the CFPB and the U.S. Department of Justice, the two agencies have agreed to coordinate efforts related to enforcing the fair lending laws, which includes information sharing and conducting joint investigations and have done so on a number of occasions.

Additional costs have been and will be incurred to implement processes, procedures and monitoring of compliance with these imposed requirements, including investing significant management attention and resources to make necessary changes to comply with the new statutory and regulatory requirements under the Dodd-Frank Act. The Company faces the risk of failing to meet these requirements, which may negatively impact results of operations and financial condition. While the effect of any presently contemplated or future changes in the laws or regulations or their interpretations would have is unpredictable, these changes could be materially adverse to the Company's investors.

Strategic and External Risks

The effect of future tax reform is uncertain and may adversely affect our business.

State and federal legislation for tax reform may increase our overall tax expense and negatively impact certain balance sheet and tax provisions taken by the Company.

The current national administration has indicated that tax reform, increasing the federal corporate tax rate, is a possibility. Such an increase would increase the Company's income tax expense as a percent of its taxable income. In August 2022, the Inflation Reduction Act was signed into law, which made a number of changes to the Internal Revenue Code, including adding a 1% excise tax on stock buybacks by publicly traded corporations. Other tax reform could adversely impact the property values of real estate used to secure loans or may create an additional tax burden for many borrowers, particularly in high tax jurisdictions such as the states of New Jersey and New York 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.

In September 2020, the State of New Jersey enacted further changes in tax law, that were retroactive to the beginning of 2020, which extended a temporary surcharge of 2.5% on corporations earning New Jersey allocated income in excess of $1.0 million through 2023. In 2024, the New Jersey tax rate is scheduled to revert back to no surcharge.

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

Severe weather, acts of terrorism, geopolitical 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. Additionally, financial markets may be adversely affected by the current or anticipated impact of military conflict, including escalating military tension between Russia and Ukraine, terrorism or other geopolitical events.

COVID-19 could continue to materially, adversely affect our business operations, financial condition, results of operations and cash flows.

The outbreak of COVID-19 has materially, adversely impacted supply chains and certain industries in which our customers operate and could materially impair their ability to fulfill their obligations to us. Further, additional outbreaks of COVID-19 variants could lead to an economic recession or other severe disruptions in the U.S. economy and may disrupt banking and other financial activity in the areas in which we operate and could potentially create widespread business continuity issues for us.

Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when the coronavirus can be fully controlled and abated. The COVID-19 pandemic and related adverse local and national economic consequences could result in a material, adverse effect on our business, financial conditions, liquidity, and results of operations.

An outbreak of any other epidemic, pandemic or outbreak of a highly contagious disease, occurring in the United States or in the geographies in which we conduct operations could materially adversely affect our business operations, financial condition, results of operations and cash flows.

An outbreak of other highly infectious or contagious diseases, could have a materially adverse impact on certain industries in which our customers operate and could materially impair their ability to fulfill their obligations to us. Further, the spread of such an outbreak, could lead to an economic recession or other severe disruptions in the U.S. economy and may disrupt banking and other financial activity in the areas in which we operate and could potentially create widespread business continuity issues for us.

Our business is dependent upon the willingness and ability of our employees and customers to conduct banking and other financial transactions. The spread of highly infectious or contagious diseases could cause severe disruptions in the U.S. economy at large, and for small businesses in particular, which could disrupt our operations and if the global response to contain the outbreak is unsuccessful, we could experience a material adverse effect on our business, financial condition, results of operations and cash flows. An outbreak of other highly infectious or contagious diseases may result in a decrease in our customers' businesses, a decrease in consumer confidence and business generally or a disruption in the services provided by our vendors. Disruptions to our customers could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans, declines in wealth management revenues, negatively impact regional economic conditions, result in declines in local loan demand, liquidity of loan guarantors, loan collateral (particularly in real estate), loan originations and deposit availability and negatively impact the implementation of our growth strategy. Furthermore, such an outbreak could negatively impact the ability of our employees and customers to engage in banking and other financial transactions in the geographic areas in which we operate and could create widespread business continuity issues for us. We also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to the effects of the outbreak and the restrictions imposed to contain it in our market areas. Although we have business continuity plans and other safeguards in place, there is no assurance that such plans and safeguards will be effective.

Moreover, we rely on many third parties in our business operations, including the appraisers of the real property collateral, vendors that supply essential services such as loan servicers, providers of financial information, systems and analytical tools and providers of electronic payment and settlement systems, and local and federal government agencies, offices, and courthouses. In light of developing measures responding to an outbreak or pandemic, many of these entities may limit the availability and access of their services. For example, loan origination could be delayed due to the limited availability of real estate appraisers for the collateral. Loan closings could be delayed related to reductions in available staff in recording offices or the closing of courthouses in certain counties, which slows the process for title work, mortgage and UCC filings in those counties. If the third-party service providers continue to have limited capacities for a prolonged period or if additional limitations or potential disruptions in these services materialize, it may negatively affect our operations.

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 its markets and geographic region. 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. Item 7 of this report captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," describes our significant accounting policy 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 policy, those events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

ITEM 1B - Unresolved Staff Comments.

Not applicable.

ITEM 2 – Properties.

As of December 31, 2022, Lakeland operated 68 branch offices located throughout Bergen, Essex, Morris, Ocean, Passaic, Somerset, Sussex, and Union Counties in New Jersey and in Highland Mills, New York. Lakeland also operates 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. In addition to the Company's principal office located at 250 Oak Ridge Road, Oak Ridge, New Jersey 07438, the Company leases two operations locations in Milton, New Jersey.

The aggregate net book value of premises and equipment was $55.4 million at December 31, 2022. As of December 31, 2022, 30 of the Company's facilities were owned and 42 were leased for various terms.

ITEM 3 - Legal Proceedings.

Litigation related to the merger with Provident has been filed against the Company consisting of the following actions: *Stein v. Lakeland Bancorp, Inc. et al.*, Case No. 1:22-cv-09946, filed in the U.S. District Court for the Southern District of New York ("S.D.N.Y.") on November 22, 2022; *O'Dell v. Lakeland Bancorp, Inc. et al.*, Case No. 1:22-cv-09980, filed in the S.D.N.Y. on November 23, 2022; *Bushansky v. Lakeland Bancorp, Inc. et al.*, Case No. 2:22-cv-07131, filed in the U.S. District Court for the District of New Jersey ("D.N.J.") on December 7, 2022; *Kaplan v. Lakeland Bancorp, Inc. et al.*, Case No. 2:22-cv-07193, filed in the D.N.J. on December 8, 2022; and *Reinhardt v. Lakeland Bancorp, Inc. et al.*, Case No. 1:23-cv-00113, filed in the S.D.N.Y. on January 6, 2023. The complaints in the *Stein, O'Dell, Bushansky, Kaplan* and *Reinhardt* actions are brought by alleged Lakeland shareholders and assert claims against the Company and the members of its board of directors and allege, among other things, that the defendants caused a materially incomplete and misleading registration statement relating to the proposed merger to be filed with the SEC in violation of Section 14(a) and Section 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 14a-9 promulgated thereunder. The Company disputes and believes it has meritorious defenses against these claims and plans to vigorously defend itself; however, the outcome of any litigation is uncertain.

There are no pending legal proceedings involving the Company or Lakeland other than those related to the merger with Provident or 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 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.

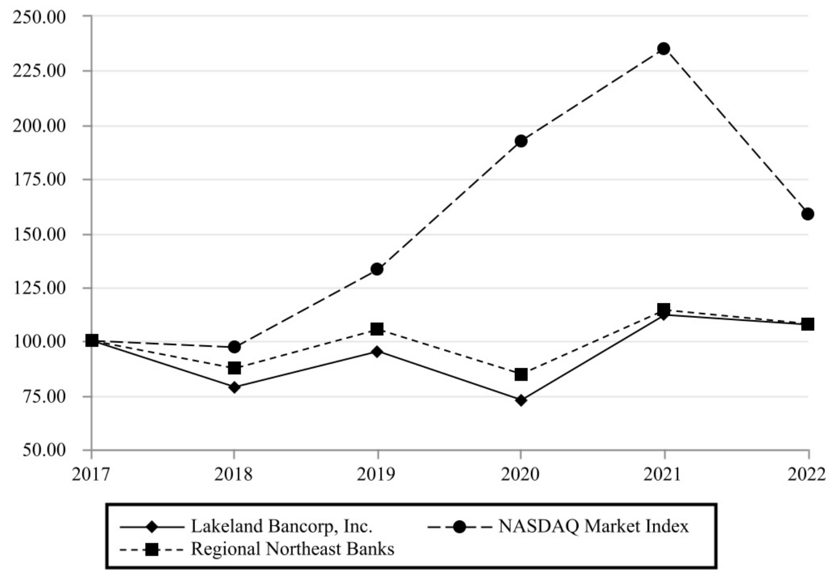
Shares of the common stock of Lakeland Bancorp, Inc. have been traded under the symbol "LBAI" on the NASDAQ Global Select Market (or the NASDAQ National Market) since February 22, 2000 and in the over the counter market prior to that date. As of February 22, 2023, there were approximately 2,983 shareholders 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, 2017 and ending December 31, 2022 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 2022



Company/Market/Peer Group	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022
Lakeland Bancorp, Inc.	$ 100.00	$ 78.78	$ 95.27	$ 72.64	$ 112.07	$ 107.48
NASDAQ Market Index	100.00	97.16	132.81	192.47	235.15	158.63
Regional Northeast Banks	100.00	87.12	105.18	84.63	114.06	107.75

The following table presents information regarding shares of our common stock repurchased during the fourth quarter of 2022.

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, 2022	—	$ —	—	2,393,423
November 1 to November 30, 2022	—	—	—	2,393,423
December 1 to December 31, 2022	—	—	—	2,393,423

(1) On October 24, 2019, the Company announced that its Board of Directors authorized a 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. This program has no expiration date.

ITEM 6 - {Reserved}.

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 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. The Company has omitted comparative discussion of 2021 and 2020 results, which are presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on February 28, 2022.

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 credit 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: inflation and changes in the interest rate environment that reduce our margins, our loan originations or the fair value of financial instruments; 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 ongoing COVID-19 outbreak and its effects on economic activity; government responses to the COVID-19 pandemic, which may affect our workforce, human capital resources and infrastructure; 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, including as it relates to the federal debt ceiling; changes in levels of market interest rates; pricing pressures on loan and deposit products; credit risks of Lakeland's lending and equipment financing activities; successful implementation, deployment and upgrades of new and existing technology, systems, services and products; customers' acceptance of Lakeland's products and services; failure to realize anticipated efficiencies and synergies from the merger of 1st Constitution Bancorp into Lakeland Bancorp and the merger of 1st Constitution Bank into Lakeland Bank; and expenses related to our proposed merger with Provident Financial, unexpected delays related to the merger, inability to obtain regulatory approvals or satisfy other closing conditions required to complete the merger, and failure to realize anticipated efficiencies and synergies from the merger.

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.

General

The Company, through its wholly owned subsidiary, Lakeland Bank, operates 68 banking offices including those offices obtained in the acquisition of 1st Constitution Bank. The offices are 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, 2022, the Company has acquired nine community banks with an aggregate asset total of approximately $4.16 billion at the date of the respective acquisitions. The Company completed its most recent acquisition of 1st Constitution Bancorp (NASDAQ: FCCY) ("1st Constitution") effective January 6, 2022 with 1st Constitution merging into Lakeland Bancorp, Inc. and 1st Constitution's wholly-owned subsidiary, 1st Constitution Bank, merging into Lakeland Bank. The acquisition represented a significant addition to Lakeland's New Jersey franchise and the combined organization has over $10 billion in assets. 1st Constitution's financial information is not included in our December 31, 2021 and 2020 financial information contained herein. The Company had a strategy to continue growing both organically and through acquisition should opportunities allow.

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 offers online 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, with a focus on providing a superior customer experience, evolving our product and service delivery and enhancing our operational functionality and cost-effectiveness. The Company continues to build its infrastructure to implement the strategy. We hired a highly-skilled team, strengthened our project management and delivery capabilities and continue to organize data housed in various areas of the Company. Investments were also made in customer relationship management tools, which will provide an enhanced view of our customers.

The Company's results of operations are primarily dependent upon net interest income, the difference between interest earned on interest-earning assets and the interest paid on interest-bearing liabilities. For information on how interest rate change can influence the Company's net interest income and how the Company manages its net interest income, see "Interest Rate Risk" 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, premises and equipment expense, data processing expense, FDIC insurance 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 compensation 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. Lakeland will continue to consolidate and close branches when an evaluation determines a significant cost savings may be obtained through the consolidation or closure. In addition, opportunities to open new branches are also evaluated.

On September 26, 2022, the Company entered into definitive merger agreement with Provident pursuant to which the companies will combine in an all-stock merger. Under the terms of the merger agreement, the Company will merge with and into Provident, with Provident as the surviving corporation, and Lakeland Bank will merge with and into Provident Bank, with Provident Bank as the surviving bank. Following the closing of the transaction, Lakeland shareholders will receive 0.8319 shares of Provident common stock for each share of Lakeland common stock they own. Upon completion of the transaction, Provident shareholders will own approximately 58% and Lakeland shareholders will own approximately 42% of the combined company. As of September 26, 2022, the transaction is valued at approximately $1.3 billion on a fully diluted basis. The combined company is expected to have more than $25 billion in total assets, $18 billion in total loans and $20 billion in total deposits. See Note 2 to the Company's financial statements included in Item 8 of this Annual Report on Form 10-K for further discussion of the merger.

Critical Accounting Estimates

The accounting and reporting policies of the Company and Lakeland conform with U.S. generally accepted accounting principles ("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 Company considers the allowance for credit losses a critical accounting estimate. See Note 1 to the Company's financial statements included in Item 8 of this Annual Report on Form 10-K for further discussion of the Company's accounting policies and methodologies for establishing the allowance and the liability for off-balance-sheet commitments.

The allowance for credit losses is a critical accounting estimate for the following reasons:

- estimates relating to the allowance for credit losses require management to project future loan performance, including cash flows, delinquencies, charge-offs and collateral values, based on a reasonable and supportable forecast period utilizing forward-looking economic scenarios in order to estimate potential credit losses;
- the allowance for credit losses is influenced by factors outside of management's control such as industry and business trends, geopolitical events and the effects of laws and regulations as well as economic conditions including, but not limited to, interest rates, housing prices, GDP, inflation and unemployment; and
- judgment is required to determine whether the models used to generate the allowance for credit losses produce results that appropriately reflect a current estimate of lifetime expected credit losses.

The Company uses an open pool loss-rate method to calculate an institution-specific historical loss rate based on historical loan level loss experience for collectively evaluated loans with similar risk characteristics. The Company's methodology considers relevant information about past and current economic conditions, as well as a single economic forecast over a reasonable and supportable period. The loss rate is applied over the remaining life of loans to develop a "baseline lifetime loss." The baseline lifetime loss is adjusted for changes in macroeconomic variables, including but not limited to interest rates, housing prices, GDP and unemployment, over the reasonable and supportable forecast period. After the reasonable and supportable forecast period, the adjusted loss rate reverts on a straight-line basis to the historical loss rate. The reasonable and supportable forecast and the reversion periods are established for each portfolio segment. The Company measures expected credit losses of financial assets by multiplying the adjusted loss rates to the amortized cost basis of each asset taking into consideration amortization, prepayment and defaults. Changes in any of these factors, assumptions or the availability of new information, could require that the allowance be adjusted in future periods, perhaps materially.

The Company considers five standard qualitative general reserve factors ("qualitative adjustments"): nature and volume of loans, lending management, policy and procedures, independent review and changes in environment. Qualitative adjustments are designed to address risks that are not captured in the quantitative reserves ("quantitative reserve"). Other qualitative adjustments or model overlays may also be recorded based on expert credit judgment in circumstances where, in the Company's view, the standard qualitative reserve factors do not capture all relevant risk factors. The use of qualitative reserves may require significant judgment that may impact the amount of allowance recognized.

Because management's estimates of the allowance for credit losses involve a high degree of judgment, the subjectivity of the assumptions used and the potential for changes in the forecasted economic environment that could result in changes to the amount of the allowance recorded, there is uncertainty inherent in such estimates. Quantifying the impact of changes in the economic forecast on the allowance for credit losses for loans is difficult. Changes in these estimates could significantly impact the allowance and provision for credit losses.

At December 31, 2022 and 2021, the allowance for credit losses on loans was $70.3 million and $58.0 million, respectively. The increase in the allowance from 2021 to 2022 included the recording of the initial allowance for credit losses on PCD loans acquired from 1st Constitution of $12.1 million and the day 2 provision on 1st Constitution's non-PCD loans of $4.6 million. Improved macroeconomic factors in 2022, reduced the allowance by $4.0 million and was offset by an increase in qualitative factors of $6.3 million. The allowance is sensitive to growth in the loan portfolio as well as changes in economic conditions.

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.

Executive Summary

The Company reported earnings of $107.4 million and diluted earnings per share of $1.63 for 2022 and asset growth of 32%. The 2022 results were favorably impacted by a 33% increase in net interest income. The net interest margin for 2022 was 3.24%.

On January 6, 2022, the Company completed its acquisition of 1st Constitution with 1st Constitution merging into Lakeland Bancorp and 1st Constitution's wholly-owned subsidiary, 1st Constitution Bank, merging into Lakeland Bank. As of January 6, 2022, 1st Constitution had approximately $1.97 billion in assets, $1.10 billion in loans and $1.65 billion in deposits. The acquisition represents a significant addition to Lakeland's New Jersey franchise.

Financial Overview

The following table presents certain key aspects of the Company's performance for the years ended December 31, 2022 and 2021 and will be discussed further in this management's discussion and analysis.

	At or for the Years Ended		
(in thousands, except per share data)	12/31/2022	12/31/2021	Change
Income Statement			
Interest income	$ 367,543	$ 257,318	$ 110,225
Interest expense	54,928	22,483	32,445
Net interest income	312,615	234,835	77,780
Provision (benefit) for credit losses	8,514	(10,896)	19,410
Net interest income after provision (benefit) for credit losses	304,101	245,731	58,370
Total other income	28,099	22,361	5,738
Total operating expense	188,208	140,757	47,451
Income before income tax expense	143,992	127,335	16,657
Income tax expense	36,623	32,294	4,329
Net income	$ 107,369	$ 95,041	$ 12,328
Share Data:			
Basic earnings per common share	$ 1.64	$ 1.85	$ (0.21)
Diluted earnings per common share	1.63	1.85	(0.22)
Average common shares outstanding	64,624	50,624	14,000
Diluted average common shares outstanding	64,918	50,870	14,048

(dollars in thousands)	At or for the Years Ended 12/31/2022	12/31/2021	Change
Balance Sheet:			
Total loans	$ 7,866,050	$ 5,976,148	$ 1,889,902
Allowance for credit losses on loans	70,264	58,047	12,217
Total assets	10,783,840	8,198,056	2,585,784
Total deposits	8,567,471	6,965,823	1,601,648
Stockholders' equity	1,108,587	827,014	281,573
Selected ratios of the Company:			
Return on average assets	1.04 %	1.19 %	(0.15)%
Return on average common equity	9.80 %	11.95 %	(2.15)%
Return on average tangible common equity	13.17 %	14.93 %	(1.76)%
Leverage ratio	9.16 %	8.51 %	0.65 %
Loans to deposits	91.81 %	85.79 %	6.02 %
Allowance for credit losses on loans to total loans	0.89 %	0.97 %	(0.08)%
Non-performing loans to total loans	0.22 %	0.28 %	(0.06)%

The Company recorded net income of $107.4 million, or $1.63 per diluted share, for the year ended December 31, 2022 compared to net income of $95.0 million, or $1.85 per diluted share, for 2021. The financial results for 2022 were favorably impacted by an increase in net interest income of $77.8 million, offset by an increase in credit loss expense totaling $19.4 million. The Company's net interest margin was 3.24% for 2022 compared to 3.13% for 2021.

In 2022, return on average assets was 1.04%, return on average common equity was 9.80% and return on average tangible common equity was 13.17%. This compared to 2021 ratios of return on average assets of 1.19%, return on average common equity of 11.95% and return on average tangible common equity of 14.93%.

Total assets at December 31, 2022 were $10.78 billion, increasing $2.59 billion or 32% compared to $8.20 billion at December 31, 2021. Total investment securities increased $382.7 million of which $342.3 million was acquired from 1st Constitution. Total loans increased $1.89 billion during 2022 to $7.87 billion at December 31, 2022 in large part due to the acquisition of $1.10 billion in loans from 1st Constitution. While all loan segments experienced growth during the year, non-owner occupied commercial loans increased $589.7 million, owner occupied commercial loans increased $337.7 million, residential loans increased $326.8 million and multifamily loans increased $288.6 million.

Non-performing assets increased by $381,000 during 2022 to $17.4 million at December 31, 2022 compared to $17.0 million at December 31, 2021.

Total deposits increased $1.60 billion, or 23%, from December 31, 2021 to December 31, 2022, primarily due to the acquisition of 1st Constitution. During 2022, savings and interest-bearing transaction accounts increased $771.9 million and noninterest-bearing deposit accounts increased $380.8 million. In addition, time deposit balances increased by $449.0 million.

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.

For 2022, the Company's net interest margin was 3.24% compared to 3.13% for 2021. The increase in net interest margin resulted primarily from a 34 basis point increase in the yields of interest-earning assets partially offset by an increase in the cost of interest-bearing liabilities.

The following table reflects the components of the Company's net interest income, setting forth for the years presented, (1) average assets, liabilities and stockholders' equity, (2) interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities, (3) average yields earned on interest-earning assets and average rates paid on interest-bearing liabilities, (4) the Company's net interest spread (i.e., the average yield on interest-earning assets less the average cost of interest-bearing liabilities) and (5) the Company's net interest margin. Rates are computed on a tax equivalent basis assuming a 21% tax rate.

	2022			2021			2020		
(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)	$ 7,376,839	$ 325,001	4.36 %	$ 6,003,325	$ 237,037	3.95 %	$ 5,626,273	$ 229,036	4.07 %
Taxable investment securities and other	1,774,466	35,352	1.99 %	1,017,140	17,208	1.69 %	808,629	17,811	2.20 %
Tax-exempt securities	354,404	7,462	2.11 %	143,363	3,333	2.32 %	80,594	2,085	2.59 %
Federal funds sold (2)	188,525	1,295	0.69 %	352,834	440	0.12 %	220,329	348	0.16 %
Total interest-earning assets	9,694,234	369,110	3.77 %	7,516,662	258,018	3.43 %	6,735,825	249,280	3.70 %
Noninterest-earning assets:									
Allowance for credit losses	(71,571)			(64,537)			(61,898)		
Other assets	684,582			522,780			534,439		
Total Assets	$ 10,307,245			$ 7,974,905			$ 7,208,366		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
Savings accounts	$ 1,094,399	$ 2,410	0.22 %	$ 642,298	$ 334	0.05 %	$ 535,754	$ 325	0.06 %
Interest-bearing transaction accounts	4,373,830	32,982	0.75 %	3,613,484	10,817	0.30 %	3,035,626	17,396	0.57 %
Time deposits	922,935	8,861	0.96 %	882,379	5,642	0.64 %	1,064,187	14,338	1.35 %
Federal funds purchased	100,745	3,455	3.38 %	2,287	8	0.35 %	40,536	449	1.09 %
Securities sold under agreements to repurchase	96,812	203	0.21 %	92,824	70	0.07 %	51,889	107	0.21 %
Long -term borrowings	218,811	7,017	2.53 %	162,643	5,612	3.40 %	244,000	8,540	3.44 %
Total interest-bearing liabilities	6,807,532	54,928	0.80 %	5,395,915	22,483	0.42 %	4,971,992	41,155	0.83 %
Noninterest-bearing liabilities:									
Demand deposits	2,267,867			1,671,889			1,362,918		
Other liabilities	135,985			111,547			130,231		
Stockholders' equity	1,095,861			795,554			743,225		
Total Liabilities and Stockholders' Equity	$ 10,307,245			$ 7,974,905			$ 7,208,366		
Net interest income/spread		314,182	2.97 %		235,535	3.01 %		208,125	2.87 %
Tax equivalent basis adjustment		1,567			700			438	
Net Interest Income		$ 312,615			$ 234,835			$ 207,687	
Net Interest Margin (3)			3.24 %			3.13 %			3.09 %

(1) Includes non-accrual loans, loans held for sale and deferred loan fees. Average deferred loan fees totaled $3.3 million in 2022, $9.7 million in 2021 and $7.7 million in 2020.
(2) Includes interest-bearing cash accounts.
(3) Net interest income on a tax equivalent basis divided by interest-earning assets.

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 two years. This information is presented on a tax equivalent basis assuming a 21% 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. There are no out-of-period items or adjustments in the table below.

	2022 vs. 2021			2021 vs. 2020		
	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	$ 58,850	$ 29,114	$ 87,964	$ 15,031	$ (7,030)	$ 8,001
Taxable investment securities and other	14,794	3,350	18,144	4,032	(4,635)	(603)
Tax-exempt investment securities	4,443	(314)	4,129	1,478	(230)	1,248
Federal funds sold	(1,130)	1,985	855	177	(85)	92
Total interest income	76,957	34,135	111,092	20,718	(11,980)	8,738
Interest Expense						
Savings deposits	996	1,080	2,076	32	(23)	9
Interest-bearing transaction accounts	5,213	16,952	22,165	4,360	(10,939)	(6,579)
Time deposits	377	2,842	3,219	(2,134)	(6,562)	(8,696)
Federal funds purchased	3377	70	3,447	(259)	(183)	(442)
Securities sold under agreements to repurchase	8	125	133	(183)	147	(36)
Long-term borrowings	1,977	(572)	1,405	(2,833) 1,786	(95)	(2,928)
Total interest expense	11,948	20,497	32,445	(1,017)	(17,655)	(18,672)
Net Interest Income	$ 65,009	$ 13,638	$ 78,647	$ 21,735	$ 5,675	$ 27,410

Net interest income on a tax equivalent basis for 2022 was $314.2 million, compared to $235.5 million in 2021. The increase in interest income resulted from a $2.18 billion increase in average earning assets and a 34 basis point increase in the yield on average earning assets.

Interest income on a tax-equivalent basis increased $111.1 million, or 43%, from $258.0 million in 2021 to $369.1 million in 2022. The increase in interest income resulted from the increase in balances and higher interest rates on average interest-earning assets. The increase in yield on interest-earning assets was due primarily to increases in yields on loans and investment securities due to increases in the prime rate during 2022. The average balance of loans increased $1.37 billion compared to 2021, while the yield on average loans of 4.36% in 2022 was 41 basis points higher than 2021. The yield on average taxable investment securities increased 30 basis points, while the yield on tax-exempt investment securities decreased 21 basis points compared to 2021.

Total interest expense increased $32.4 million from $22.5 million in 2021 to $54.9 million in 2022. Total average interest-bearing liabilities increased $1.41 billion, mostly due to the increase in total average interest-bearing deposits of $1.25 billion largely as a result of the 1st Constitution acquisition, and an increase in average total borrowings of $158.6 million. The cost of average interest-bearing liabilities increased from 0.42% in 2021 to 0.80% in 2022, largely driven by higher market interest rates. The cost of interest-bearing transaction accounts and time deposits increased by 45 basis points and 32 basis points, respectively, compared to 2021. Average overnight borrowings increased by $98.5 million in 2022 with the cost of those borrowings increasing by 303 basis points due to the rising interest rate environment in 2022.

Provision for Credit Losses

In determining the allowance for credit losses on investments, loans and off-balance-sheet credit exposures, management measures expected credit losses based on relevant information about past events, current conditions, reasonable and supportable forecasts, prepayments and future economic conditions. The key assumptions of the methodology include the lookback periods, historic net charge-off factors, economic forecasts, reversion periods, prepayments and qualitative adjustments. The Company uses its best judgment to assess economic conditions and loss data in estimating the allowance for credit losses. See Note 1 - Summary of Significant Accounting Policies to the Company's financial statements for a description the Company's allowance methodology.

In 2022, the Company recorded an $8.5 million provision for credit losses compared to a $10.9 million benefit for 2021. The provision is comprised of a provision for credit losses on loans of $7.7 million, a provision for off-balance-sheet exposures of $673,000 and a provision for credit losses on securities of $153,000. The provision for credit losses on loans in 2022 was due primarily to the provision for the 1st Constitution acquired non-purchased credit deteriorated loans and the growth in the loan portfolio. In addition to 1st Constitution purchased credit deteriorated loans ("PCD") charge-offs of $7.6 million, the Company charged off $733,000 and recovered $819,000 of loans in 2022 compared to loan charge-offs of $4.6 million and loan recoveries of $2.4 million in 2021.

Noninterest Income

Noninterest income of $28.1 million in 2022 increased by $5.7 million compared to 2021. Commissions and fees in 2022 increased $2.2 million compared to 2021 due primarily to increases in commercial loan fees and investment commission income, while service charges on deposit accounts increased $1.1 million compared to 2021 due primarily to increases in debit card income. In 2022, income on bank owned life insurance increased $1.3 million due to an increase in the balances of policies acquired from the 1st Constitution merger and death benefits received during 2022. Noninterest income represented 8% of total revenue in 2022. Total revenue is defined as net interest income plus noninterest income.

Noninterest Expense

Noninterest expense in 2022 totaled $188.2 million, an increase of $47.5 million from the $140.8 million recorded for 2021. The increase in noninterest expense was due primarily to an increase in compensation and employee benefit expense of $25.6 million in 2022, from 2021, as a result of an increase in staffing levels, including the staff from the 1st Constitution acquisition, and normal merit increases, as well as $772,000 of additional expense in the fourth quarter of 2022 to accelerate the vesting of executive equity awards. In 2022, premises and equipment expense increased $6.1 million compared to 2021 due primarily to additional rent, property tax and maintenance expenses from 1st Constitution properties. Noninterest expense in 2022 and 2021 also included merger-related expenses of $8.6 million and $1.8 million, respectively. Merger-related expenses in 2022 include expenses both for the acquisition of 1st Constitution Bancorp and the anticipated merger with Provident, while 2021 included expenses for the acquisition of 1st Constitution. Other operating expense for 2022 and 2021 totaled $31.6 million and $23.8 million, respectively, increasing $7.8 million or 33%, due primarily to increases in consulting expense of $1.7 million, core deposit intangible expense of $1.5 million and marketing expenses of $881,000, offset by long-term debt extinguishment costs of $831,000 recorded in 2021 as a result of the redemption of $75.0 million of fixed-to-floating rate subordinated notes.

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).

	For the Years Ended December 31,	
(dollars in thousands)	2022	2021
Calculation of Efficiency Ratio (a Non-GAAP Measure)		
Total noninterest expense	$ 188,208	$ 140,757
Less:		
Amortization of core deposit intangibles	2,351	868
Merger related expenses	8,606	1,782
Long-term debt extinguishment costs	—	831
Noninterest expense, as adjusted	$ 177,251	$ 137,276
Net interest income	$ 312,615	$ 234,835
Noninterest income	28,099	22,361
Total revenue	340,714	257,196
Tax-equivalent adjustment on municipal securities	1,567	700
Less: Gains on sales of investment securities	—	9
Total revenue, as adjusted	$ 342,281	$ 257,887
Efficiency ratio (Non-GAAP)	51.79 %	53.23 %

Income Taxes

The Company’s effective income tax rate was 25.4% for both years ended December 31, 2022 and 2021.

Financial Condition

Total assets at December 31, 2022 were $10.78 billion, an increase of $2.59 billion, or 32%, from $8.20 billion at December 31, 2021. Loans, net of deferred fees, were $7.87 billion and $5.98 billion at December 31, 2022 and 2021, respectively, an increase of $1.89 billion, or 32% during 2022. Investment securities were $2.04 billion and $1.62 billion December 31, 2022 and 2021, respectively an increase of $416.1 million or 26% during 2022. Total deposits were $8.57 billion at December 31, 2022, an increase of $1.60 billion, or 23%, from December 31, 2021. Borrowings were $948.1 million at December 31, 2022 compared to $310.5 million from December 31, 2021, an increase of $637.6 million. The acquisition of 1st Constitution added total assets of $1.97 billion, total loans of $1.10 billion and total deposits of $1.65 billion on January 6, 2022.

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. The loan portfolio consists of nine portfolio segments, taking into consideration common loan attributes and risk characteristics, as well as historical reporting metrics and data availability. See Note 1 to the Company's financial statements for a full description of the segments.

At December 31, 2022, the amortized cost of loans totaled $7.87 billion, an increase of $1.89 billion when compared to the balance at December 31, 2021 of $5.98 billion. The increase in commercial, industrial and other loans of $144.3 million was partially offset by a decline in PPP loans of $56.1 million during 2022. All categories of loans experienced increases in 2022, including non owner occupied commercial of $589.7 million, owner occupied commercial loans of $337.7 million, residential loans of $326.8 million and multifamily loans of $288.6 million. For detailed information on the composition of the Company’s loan portfolio, see Note 5 in Notes to Consolidated Financial Statements contained in this Annual Report on Form 10-K.

The following table presents the classification of Lakeland's loans by major category.

(in thousands)	December 31, 2022	December 31, 2021
Non-owner occupied commercial	$ 2,906,014	$ 2,316,284
Owner occupied commercial	1,246,189	908,449
Multifamily	1,260,814	972,233
Non-owner occupied residential	218,026	177,097
Commercial, industrial and other	606,711	462,406
Construction	380,100	302,228
Equipment finance	151,574	123,212
Residential mortgage	765,552	438,710
Consumer	331,070	275,529
Total	$ 7,866,050	$ 5,976,148

At December 31, 2022, concentrations of loans exceeding 10% by segment of total loans outstanding included non-owner occupied commercial loans, owner occupied commercial loans and multifamily loans. Commercial, industrial and other includes $435,000 of PPP loans, which are expected to be fully guaranteed by the SBA. 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 tables present loan maturities and sensitivity to changes in interest rates at December 31, 2022.

(in thousands)	Within One Year	After One but Within Five Years	After Five Years but Within Fifteen Years	After Fifteen Years	Total
Non-owner occupied commercial	$ 155,674	$ 703,169	$ 1,960,977	$ 86,194	$ 2,906,014
Owner occupied commercial	65,165	344,681	769,389	66,954	1,246,189
Multifamily	12,845	302,924	909,798	35,247	1,260,814
Non-owner occupied residential	17,070	60,086	133,484	7,386	218,026
Commercial, industrial and other	323,506	146,777	128,231	8,197	606,711
Construction	145,583	81,053	148,091	5,373	380,100
Equipment finance	4,018	133,590	13,966	—	151,574
Residential Mortgage	2,626	18,585	88,019	656,322	765,552
Consumer	2,662	18,339	81,038	229,031	331,070
Total loans	$ 729,149	$ 1,809,204	$ 4,232,993	$ 1,094,704	$ 7,866,050

(in thousands)	Amounts due after one year at predetermined rates	Amount due after one year at floating or adjustable rates
Non-owner occupied commercial	$ 866,055	$ 1,884,285
Owner occupied commercial	375,215	805,809
Multifamily	400,918	847,051
Non-owner occupied residential	64,226	136,730
Commercial, industrial and other	160,383	122,822
Construction	17,546	216,971
Equipment finance	147,556	—
Residential Mortgage	527,370	235,556
Consumer	112,913	215,495
Total loans	$ 2,672,182	$ 4,464,719

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.

Non-accrual loans increased slightly to $17.4 million at December 31, 2022 from $17.0 million at December 31, 2021. The Company added $1.0 million of non-accruing PCD loans acquired from 1st Constitution. Commercial, industrial and other non-accrual loans decreased $3.8 million when compared to December 31, 2021 as a result of payments made on one non-accrual loan during 2022. In addition, non-accruals of owner occupied commercial loans increased by $6.6 million, while non owner occupied commercial and non owner occupied residential non-accruals decreased by $2.4 million each. Non-accruals as of December 31, 2022 include one loan relationship between $500,000 and $1.0 million totaling $980,000 and three loan relationships exceeding $1.0 million totaling $11.5 million. All non-accrual loans are in various stages of litigation, foreclosure, or workout. There are no non-accrual loans included in troubled debt restructurings as of December 31, 2022 and $127,000 of non-accrual loans in troubled debt restructurings as of December 31, 2021.

At December 31, 2022 and 2021, Lakeland had $2.6 million and $3.3 million, respectively, in loans that are TDRs 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.

At December 31, 2022 and 2021, the Company had $63.5 million and $102.3 million, respectively, of loans that were rated substandard that were not classified as non-performing. There were no additional loans at December 31, 2022, other than those designated non-performing or substandard, where Lakeland was aware of any credit conditions of any borrowers that would indicate a 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 tables present the historical relationships between credit ratios, including allowance for credit losses to total loans, non-accrual loans to total loans, allowance for credit losses to non-accrual loans and net charge-offs to average loans by loan category.

	As of and for the Year Ended December 31,		
(dollars in thousands)	2022	2021	2020
Allowance for credit losses on loans to total loans outstanding	0.89 %	0.97 %	1.18 %
Allowance for credit losses on loans	$ 70,264	$ 58,047	$ 71,124
Total loans outstanding	7,866,050	5,976,148	6,021,232
Non-accrual loans to total loans outstanding	0.22 %	0.28 %	0.71 %
Non-accrual loans	$ 17,362	$ 16,981	$ 42,763
Total loans outstanding	7,866,050	5,976,148	6,021,232
Allowance for credit losses on loans to non-accrual loans	404.70 %	341.83 %	166.32 %
Allowance for credit losses on loans	$ 70,264	$ 58,047	$ 71,124
Non-accrual loans	17,362	16,981	42,763

(dollars in thousands)	As of and for the Year Ended December 31, 2022	2021	2020
Net charge-offs (recoveries) during the period to average loans outstanding:			
Non-owner occupied commercial	— %	0.10 %	— %
Net charge-offs during the period	$ —	$ 2,246	$ 24
Average amount outstanding	2,798,805	2,347,575	2,252,386
Owner occupied commercial	(0.03)%	— %	0.05 %
Net (recoveries) charge-offs during the period	$ (313)	$ (20)	$ 348
Average amount outstanding	1,120,776	870,727	763,183
Multifamily	— %	— %	— %
Net charge-offs during the period	$ —	$ 28	$ —
Average amount outstanding	1,138,937	889,456	675,633
Non owner occupied residential	(0.01)%	0.03 %	(0.01)%
Net charge-offs (recoveries) during the period	$ (14)	$ 58	$ (22)
Average amount outstanding	215,342	188,166	202,555
Commercial, industrial and other	0.15 %	(0.08)%	0.09 %
Net (recoveries) charge-offs during the period	$ 977	$ (487)	$ 607
Average amount outstanding	644,329	593,979	644,844
Construction	1.74 %	(0.01)%	(0.01)%
Net recoveries during the period	$ 6,804	$ (21)	$ (23)
Average amount outstanding	391,253	312,107	300,434
Equipment finance	0.05 %	0.24 %	0.19 %
Net charge-offs during the period	$ 70	$ 285	$ 219
Average amount outstanding	132,384	120,252	117,158
Residential mortgage	(0.01)%	(0.02)%	0.03 %
Net (recoveries) charge-offs during the period	$ (48)	$ (64)	$ 95
Average amount outstanding	624,492	398,141	340,356
Consumer	0.02 %	0.05 %	0.08 %
Net charge-offs during the period	$ 72	$ 137	$ 264
Average amount outstanding	308,368	281,896	327,567
Total loans	0.10 %	0.04 %	0.03 %
Net charge-offs (recoveries) during the period	$ 7,548	$ 2,162	$ 1,512
Average amount outstanding	7,374,686	6,002,299	5,624,116

For 2022 and 2021, the ratio of the allowance for credit losses on loans to total loans outstanding was 0.89% and 0.97%, respectively. The Company recorded a provision for credit losses on loans in 2022 of $7.7 million due to the provision for the 1st Constitution's acquired non-purchased credit deteriorated loans and growth in the loan portfolio in 2022. The ratio of non-accrual loans to total loans improved to 0.22% in 2022 from 0.28% in 2021. In addition, the ratio of allowance for credit losses on loans to non-accrual loans improved to 404.70% from 341.83%.

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 credit losses on loans to be adequate at December 31, 2022.

Net charge-offs as a percentage of average loans outstanding remain at low levels at 0.10% and 0.04% for 2022 and 2021, respectively. The primary reason for the increase in net charge-offs in 2022 was charge-offs related to 1st Constitution's PCD loans, which totaled $7.6 million.

The following table presents the allowance for credit losses on loans allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for credit losses on loans 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, 2022		December 31, 2021	
(dollars in thousands)	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category
Non-owner occupied commercial	$ 23,462	37.0 %	$ 20,071	38.7 %
Owner occupied commercial	6,696	15.8 %	3,964	15.2 %
Multifamily	9,425	16.1 %	8,309	16.3 %
Non-owner occupied residential	2,643	2.8 %	2,380	3.0 %
Commercial, industrial and other	8,836	7.7 %	9,891	7.7 %
Construction	2,968	4.8 %	838	5.1 %
Equipment finance	3,445	1.9 %	3,663	2.1 %
Residential mortgage	8,041	9.7 %	3,914	7.3 %
Consumer	4,748	4.2 %	5,017	4.6 %
Total	$ 70,264	100.0 %	$ 58,047	100.0 %

Investment Securities

Investment securities totaled $1.98 billion at December 31, 2022, increasing $382.7 million compared to $1.59 billion at December 31, 2021. 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. During the third quarter of 2021, the Company transferred $494.2 million of previously designated available for sale securities to a held to maturity designation at estimated fair value. The securities transferred had an unrealized net gain of $3.8 million at the time of transfer, which was reflected, net of taxes, in accumulated other comprehensive income (loss). Subsequent amortization will be recognized over the life of the securities. The Company recorded amortization of $747,000 and $383,000 during 2022 and 2021, respectively. For detailed information on the composition and maturity distribution of the Company’s investment securities portfolio, see Note 4 in Notes to Consolidated Financial Statements contained in this Annual Report on Form 10-K.

The following table presents 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, 2022, 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	$ 33,823	$ 217,173	$ 53,388	$ 51,255	$ 355,639
Yield	1.50 %	1.31 %	2.41 %	3.83 %	1.85 %
Mortgage-backed securities, residential					
Amount	100	1,553	23,000	285,960	310,613
Yield	1.47 %	2.68 %	2.23 %	2.70 %	2.67 %
Collateralized mortgage obligations, residential					
Amount	—	1,055	574	152,429	154,058
Yield	— %	2.36 %	1.33 %	2.87 %	2.86 %
Mortgage-backed securities, multifamily					
Amount	—	—	785	—	785
Yield	— %	— %	1.45 %	— %	1.45 %
Collateralized mortgage obligations, multifamily					
Amount	—	13,895	20,687	11,751	46,333
Yield	— %	2.29 %	3.25 %	2.21 %	2.70 %
Asset-backed securities					
Amount	—	—	—	52,395	52,395
Yield	— %	— %	— %	5.02 %	5.02 %
Obligations of states and political subdivisions					
Amount	1,898	5,014	8,669	5,541	21,122
Yield	1.15 %	0.98 %	1.65 %	0.88 %	1.24 %
Debt securities					
Amount	4,991	22,474	85,902	—	113,367
Yield	5.95 %	3.13 %	4.12 %	— %	4.00 %
Total securities					
Amount	$ 40,812	$ 261,164	$ 193,005	$ 559,331	$ 1,054,312
Yield	2.03 %	1.52 %	3.20 %	3.04 %	2.65 %

(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	$ —	$ 7,007	$ 2,330	$ 1,762	$ 11,099
Yield	— %	1.76 %	3.71 %	1.98 %	2.20 %
Mortgage-backed securities, residential					
Amount	—	24	5,493	355,166	360,683
Yield	— %	4.91 %	1.50 %	2.22 %	2.21 %
Collateralized mortgage obligations, residential					
Amount	—	—	687	12,339	13,026
Yield	— %	— %	2.20 %	2.54 %	2.52 %
Mortgage-backed securities, multifamily					
Amount	876	—	2,656	1,562	5,094
Yield	2.36 %	— %	1.91 %	2.96 %	2.31 %
Obligations of states and political subdivisions					
Amount	62,985	25,205	74,427	367,889	530,506
Yield	2.34 %	1.09 %	1.72 %	1.96 %	1.93 %
Debt securities					
Amount	—	—	2,900	—	2,900
Yield	— %	— %	3.00 %	— %	3.00 %
Total securities					
Amount	$ 63,861	$ 32,236	$ 88,493	$ 738,718	$ 923,308
Yield	2.34 %	1.24 %	1.81 %	2.09 %	2.05 %

Other Assets

Assets included within "other assets" on the Company's balance sheet increased from $71.8 million at December 31, 2021 to $167.4 million at December 31, 2022 primarily due to an increase in swap assets of $54.0 million as the demand for swap transactions increased in 2022 because of changes in the yield curve. In addition, net deferred tax assets increased by $32.5 million, primarily as a result of the increase in unrealized loss on investment securities.

Deposits

Total deposits increased from $6.97 billion at December 31, 2021 to $8.57 billion at December 31, 2022, an increase of $1.60 billion, or 23%. Savings and interest-bearing transaction accounts, time deposits and noninterest-bearing deposits increased $771.9 million, $449.0 million and $380.8 million, respectively. The increase in deposits during 2022 can be primarily attributed to the 1st Constitution acquisition.

The average amount of deposits, the average rates paid on deposits and the balance of uninsured deposits (i.e., the portion of deposit accounts that exceed the FDIC insurance limit) for the years indicated are summarized in the following table.

	Year Ended December 31,					
	2022		2021		2020	
(dollars in thousands)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand deposits	$ 2,267,867	— %	$ 1,671,889	— %	$ 1,362,918	— %
Interest-bearing transaction accounts	4,373,830	0.75 %	3,613,484	0.30 %	3,035,626	0.57 %
Savings	1,094,399	0.22 %	642,298	0.05 %	535,754	0.06 %
Time deposits	922,935	0.96 %	882,379	0.64 %	1,064,187	1.35 %
Total	$ 8,659,031	0.51 %	$ 6,810,050	0.25 %	$ 5,998,485	0.53 %

	December 31, 2022	December 31, 2021	December 31, 2020
Uninsured deposits	$4,355,585	$3,256,006	$3,059,345

The aggregate amount of outstanding time deposits that are uninsured in excess of $250,000, broken down by time remaining to maturity at December 31, 2022, was as follows.

(in thousands)	
Within 3 months	$ 16,568
Over 3 through 6 months	14,942
Over 6 through 12 months	166,691
Over 12 months	60,066
Total	$ 258,267

Federal Home Loan Bank Advances and Other Borrowings

Lakeland may borrow from time to time from the FHLB and other correspondent banks as part of its overall funding and liquidity management program. FHLB advances totaled $25.0 million at December 31, 2022 and December 31, 2021, both with a weighted average interest rate of 0.77%. These advances are collateralized by first mortgage loans and have prepayment penalties.

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 five-year 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 was 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 was paying a third party an average of 1.10% in exchange for a payment at three-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 were recorded in accumulated other comprehensive income (loss) and were subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2022, the Company did not record any hedge ineffectiveness. During 2021, the $30.0 million in notional value of the swaps matured and the Company did not enter into any additional hedges. Further discussion of Lakeland's financial derivatives can be found in Note 20 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 $124.7 million in 2022 compared to $95.1 million in 2021.
- Deposits. Lakeland can offer new products or change its rate structure in order to attempt to increase deposits. In 2022, Lakeland experienced a $48.5 million decline in deposits excluding $1.65 billion in deposits acquired from 1st Constitution compared to growth of $510.1 million in 2021.
- Sales of securities and overnight funds. At year-end 2022, the Company had $1.05 billion in securities designated "available for sale." Of these securities, $791.5 million was pledged to secure public deposits and for other purposes required by applicable laws and regulations.
- Repayments on loans and investments can also be a source of liquidity to fund further loan growth.
- Overnight credit lines. As a member of the FHLB, Lakeland has the ability to borrow overnight and short term based on the market value of collateral pledged. Lakeland had $700.0 million of overnight and short-term borrowings from the FHLB as of December 31, 2022. Lakeland also has overnight federal funds lines available for it to borrow up to $250.0 million from correspondent banks. Lakeland had no borrowings against these lines at December 31, 2022. 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, 2022.
- 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 10 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 $236.0 million at December 31, 2022, increased $7.4 million from December 31, 2021. Operating activities provided $124.7 million in net cash. Investing activities used $651.9 million in net cash, primarily reflecting a net increase in investment securities. an increase in loans and net purchases of Federal Home Loan Bank stock in addition to $326.2 million of cash acquired from 1st Constitution. Financing activities provided $534.6 million in net cash primarily reflecting a net increase in federal funds purchased and securities sold under agreements to repurchase of $622.3 million partially offset by a decrease in deposits of $48.5 million and the payment of dividends of $37.3 million.

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. Actual results could differ materially from anticipated results due to a variety of factors, including uncertainties relating to the effects of the COVID-19 pandemic; 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, 2022. 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	$ 24,676	$ 4,866	$ 7,782	$ 4,789	$ 7,239
Benefit plan commitments	4,125	422	749	745	2,209
Remaining contractual maturities of time deposits	1,208,177	909,914	284,869	13,394	—
Subordinated debentures	194,264	—	—	—	194,264
Loan commitments and lines of credit	1,550,284	1,090,624	166,457	41,168	252,035
Other borrowings	25,000	—	25,000	—	—
Interest on other borrowings (1)	80,521	7,982	15,820	15,580	41,139
Standby letters of credit	20,102	18,637	110	1,355	—
Total	$ 3,107,149	$ 2,032,445	$ 500,787	$ 77,031	$ 496,886

(1) Includes interest on other borrowings and subordinated debentures at a weighted rate of 3.64%.

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 2022 (the base case) is $313.6 million. The information provided for net interest income assumes that changes in interest rates change gradually in equal increments ("rate ramp") over the twelve month period.

	Changes in Interest Rates	
Rate Ramp	+200 bp	-200 bp
Asset/Liability Policy limit	(5.0)%	(5.0)%
December 31, 2022	(2.0)%	1.1 %

	Changes in Interest Rates	
Rate Ramp	+200 bp	-100 bp
Asset/Liability Policy limit	(5.0)%	(5.0)%
December 31, 2021	(0.9)%	0.8 %

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	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp	-300 bp	-400 bp
Asset/Liability Policy limit	(25.0)%	(20.0)%	(15.0)%	(10.0)%	(10.0)%	(15.0)%	(20.0)%	(25.0)%
December 31, 2022	(7.1)%	(5.4)%	(3.8)%	(1.6)%	0.7 %	0.4 %	(1.0)%	(1.7)%

	Changes in Interest Rates			
Rate Shock	+300 bp	+200 bp	+100 bp	-100 bp
Asset/Liability Policy limit	(15.0)%	(10.0)%	(5.0)%	(5.0)%
December 31, 2021	(0.9)%	(0.7)%	(0.5)%	(0.4)%

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, 2022 (the base case) was $2.03 billion. 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	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp	-300 bp	-400 bp
Asset/Liability Policy limit	(35.0)%	(25.0)%	(20.0)%	(10.0)%	(10.0)%	(20.0)%	(25.0)%	(35.0)%
December 31, 2022	(13.8)%	(10.3)%	(6.6)%	(2.9)%	1.9 %	1.9 %	(0.5)%	(6.0)%

	Changes in Interest Rates			
Rate Shock	+300 bp	+200 bp	+100 bp	-100 bp
Asset/Liability Policy limit	(25.0)%	(20.0)%	(10.0)%	(10.0)%
December 31, 2021	(10.9)%	(7.0)%	(2.7)%	(7.0)%

The information in the above tables represents 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 $827.0 million on December 31, 2021 to $1.11 billion on December 31, 2022, which was primarily due to $107.4 million of net income and $285.7 million from the issuance of stock for the 1st Constitution acquisition, partially offset by $78.0 million other comprehensive loss and the payment of cash dividends on common stock of $37.3 million.

Book value per common share (total common stockholders' equity divided by the number of shares outstanding) increased from $16.34 on December 31, 2021 to $17.09 on December 31, 2022, primarily as a result of an increase in retained net income. Tangible book value per share was $12.76 on December 31, 2022, decreasing from $13.21 on December 31, 2021, primarily as a result of the 1st Constitution acquisition and the increase in accumulated comprehensive loss on available for sale securities. 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, 2022, the Company and Lakeland met all capital adequacy requirements to which they are subject.

The following table reflects capital ratios of the Company and Lakeland as of December 31, 2022 and 2021.

	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,	
	2022	2021	2022	2021	2022	2021	2022	2021
Company	9.16 %	8.51 %	10.71 %	10.67 %	11.24 %	11.15 %	13.83 %	14.48 %
Lakeland	10.03 %	9.70 %	12.31 %	12.71 %	12.31 %	12.71 %	13.15 %	13.67 %
Required capital ratios including conservation buffer	4.00 %	4.00 %	7.00 %	7.00 %	8.50 %	8.50 %	10.50 %	10.50 %
“Well capitalized” institution under FDIC regulations	5.00 %	5.00 %	6.50 %	6.50 %	8.00 %	8.00 %	10.00 %	10.00 %

Non-GAAP Financial Measures

Calculation of Tangible Book Value Per Common Share

(in thousands, except per share amounts)	December 31, 2022	December 31, 2021
Total common stockholders’ equity at end of period - GAAP	$ 1,108,587	$ 827,014
Less:		
Goodwill	271,829	156,277
Other identifiable intangible assets, net	9,088	2,420
Total tangible common stockholders’ equity at end of period - Non-GAAP	$ 827,670	$ 668,317
Shares outstanding at end of period	64,872	50,606
Book value per share - GAAP	$ 17.09	$ 16.34
Tangible book value per share - Non-GAAP	$ 12.76	$ 13.21

Calculation of Tangible Common Equity to Tangible Assets

(dollars in thousands)	December 31, 2022	December 31, 2021
Total tangible common stockholders’ equity at end of period - Non-GAAP	$ 827,670	$ 668,317
Total assets at end of period - GAAP	$ 10,783,840	$ 8,198,056
Less:		
Goodwill	271,829	156,277
Other identifiable intangible assets, net	9,088	2,420
Total tangible assets at end of period - Non-GAAP	$ 10,502,923	$ 8,039,359
Common equity to assets - GAAP	10.28 %	10.09 %
Tangible common equity to tangible assets - Non-GAAP	7.88 %	8.31 %

Calculation of Return on Average Tangible Common Equity:

(dollars in thousands)	For the Years Ended December 31, 2022	2021	2020
Net income - GAAP	$ 107,369	$ 95,041	$ 57,518
Total average common stockholders' equity - GAAP	$ 1,095,861	$ 795,554	$ 743,225
Less:			
Average goodwill	270,246	156,277	156,277
Average other identifiable intangible assets, net	10,192	2,866	3,816
Total average tangible common stockholders' equity - Non-GAAP	$ 815,423	$ 636,411	$ 583,132
Return on average common stockholders' equity - GAAP	9.80 %	11.95 %	7.74 %
Return on average tangible common stockholders' equity - Non-GAAP	13.17 %	14.93 %	9.86 %

Recent Accounting Pronouncements

In June 2022, the Financial Accounting Standards Board ("FASB") issued Update 2022-03, "Fair Value Measurement (Topic 820)" ("ASU 2022-03"). The guidance clarifies the guidance in Topic 820 when measuring the fair value of an equity security subject to contractual restrictions that prohibits the sale of an equity security, amends a related illustrative example, and introduces new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. This ASU will be effective for financial statements issued by public business entities for fiscal years and interim periods beginning after December 15, 2023. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The Company does not expect ASU 2022-03 to have a material impact on the Company's financial statements.

In March 2022, FASB issued Update 2022-02, "Financial Instruments - Credit Losses (ASC 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures" ("ASU 2022-02"). The guidance amends ASC 326 to eliminate the accounting guidance for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of existing loan. These amendments are intended to enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Additionally, the amendments to ASC 326 require that an entity disclose current-period gross write-offs by year of origination within the vintage disclosures, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The guidance is only for entities that have adopted the amendments in Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption using prospective application, including adoption in an interim period where the guidance should be applied as of the beginning of the fiscal year. The Company is currently assessing the impact of ASU 2022-02 on its disclosures and control structure; however, the Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In October 2021, the Financial Accounting Standards Board ("FASB") issued Update 2021-08, an update to Topic 805, Business Combinations. The update provides guidance to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to the recognition of an acquired contract liability and payment terms and their effect on subsequent revenue recognized by the acquirer. The amendment provides specific guidance on how to recognize and measure acquired contract assets and contract liabilities from revenue contracts in a business combination. The amendments in this ASU apply to all entities that enter into a business combination within the scope of Subtopic 805-10, Business Combinations - Overall. This ASU will be effective for financial statements issued by public business entities for fiscal years and interim periods beginning after December 15, 2022. The Company does not expect the ASU to have a material impact on the Company's financial statements.

In March 2020, FASB issued Update 2020-04, an update to Topic 848, Reference Rate Reform. The update provides guidance to ease the potential burden in accounting for, or recognizing the effects of, reference rate reform on financial reporting. The update provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met and only applies to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. In addition, the update provides optional expedients for applying the requirements of certain Topics or Industry Subtopics in the Codification for contracts that are modified because of reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate. In December 2022, FASB issued Update 2022-06 Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, which allows companies to apply the standard as of the beginning of the interim period that includes March 12, 2020 or any date thereafter until December 31, 2024. During 2022, the Company continued to convert LIBOR-based loans to SOFR and does not expect the impact to its financial statements to be material.

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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, 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, 2022, 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 February 28, 2023 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 judgments. 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.

Allowance for credit losses for loans evaluated on a collective basis

As discussed in Notes 1 and 6 to the consolidated financial statements, the Company's total allowance for credit losses on loans as of December 31, 2022 was $70.3 million, of which $66.2 million related to the allowance for credit losses on loans evaluated on a collective basis (collective ACL). Loans that share similar risk characteristics are grouped into respective portfolio segments for collective assessment, and as such make up the collective ACL. The Company uses an open pool loss-rate methodology that considers relevant information about past and current economic conditions, as well as a single economic forecast over a reasonable and supportable period. The Company's historical loss rate is adjusted for changes in the economic forecast over the reasonable and supportable forecast period. The expected credit losses are the product of multiplying the Company's adjusted loss rate by the amortized cost basis of each asset taking into consideration amortization, prepayment and defaults. After the reasonable and supportable forecast period, the adjusted loss rate reverts on a straight-line basis to the historical loss rate. The reasonable and supportable and the reversion periods are established for each portfolio segment. A portion of the collective ACL is comprised of qualitative adjustments designed to address risks that are not previously captured in the open pool loss-rate model.

We identified the assessment of the collective ACL as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved in the assessment of the collective ACL due to significant measurement uncertainty. Specifically, the assessment encompassed the evaluation of the collective ACL methodology, including methods and models used to estimate the (1) adjusted loss rate and its significant assumptions, comprising the economic forecast and macroeconomic variables, the reasonable and supportable forecast period including the reversion period, and estimated prepayments, and (2) the qualitative adjustments. The assessment also included an evaluation of of the conceptual soundness and performance of the open pool loss-rate model. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the collective ACL estimate, including controls over the:

- development of the collective ACL methodology, including the selection of the open pool loss-rate model
- continued use and appropriateness of changes made to the open pool loss-rate model
- performance monitoring of the open pool loss-rate model
- identification and determination of the significant assumptions used to measure the adjusted loss rate in the open pool loss-rate model
- development of the qualitative adjustments
- analysis of the collective ACL results, trends and ratios.

We evaluated the Company's process to develop the collective ACL estimate by testing certain sources of data, factors, and assumptions that the Company used, and considered the relevance and reliability of such data, factors and assumptions. In addition, we involved credit risk professionals with specialized skills and knowledge, who assisted in:

- evaluating the Company's collective ACL methodology for compliance with U.S. generally accepted accounting principles
- evaluating judgments made by the Company relative to the assessment of the open pool loss-rate model by comparing them to relevant Company-specific metrics and trends and the applicable industry and regulatory practices
- assessing the conceptual soundness and performance monitoring of the open pool loss-rate model by inspecting the model documentation to determine whether the model is suitable for its intended use
- evaluating the selection of the economic forecast and macroeconomic variables by comparing it to the Company's business environment and relevant industry practices
- evaluating the length of the reasonable and supportable forecast period and reversion period, by comparing them to specific portfolio risk characteristics and trends
- evaluating the judgments made by management in developing estimated prepayments by comparing to specific portfolio risk characteristics and trends
- evaluating the methodology used to develop the qualitative adjustments and the effect of those on the collective ACL compared with relevant credit risk factors and consistency with credit trends.

We also assessed the sufficiency of the audit evidence obtained related to the collective ACL by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company's accounting practices
- potential bias in the accounting estimates.

/s/ KPMG LLP

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

Short Hills, New Jersey
February 28, 2023

Lakeland Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31,	
(dollars in thousands)	2022	2021
Assets		
Cash	$ 223,299	$ 199,158
Interest-bearing deposits due from banks	12,651	29,372
Total cash and cash equivalents	235,950	228,530
Investment securities, available for sale, at estimated fair value (allowance for credit losses of $310 at December 31, 2022, and $83 at December 31, 2021)	1,054,312	769,956
Investment securities, held to maturity (estimated fair value of $760,455 at December 31, 2022, and $815,211 at December 31, 2021, and allowance for credit losses of $107 at December 31, 2022, and $181 at December 31, 2021)	923,308	824,956
Equity securities, at fair value	17,283	17,368
Federal Home Loan Bank and other membership stock, at cost	42,483	9,049
Loans held for sale	536	1,943
Loans, net of deferred fees	7,866,050	5,976,148
Less: Allowance for credit losses	70,264	58,047
Total loans, net	7,795,786	5,918,101
Premises and equipment, net	55,429	45,916
Operating lease right-of-use assets	20,052	15,222
Accrued interest receivable	33,374	19,209
Goodwill	271,829	156,277
Other identifiable intangible assets	9,088	2,420
Bank owned life insurance	156,985	117,356
Other assets	167,425	71,753
Total Assets	$ 10,783,840	$ 8,198,056
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 8,567,471	$ 6,965,823
Federal funds purchased and securities sold under agreements to repurchase	728,797	106,453
Other borrowings	25,000	25,000
Subordinated debentures	194,264	179,043
Operating lease liabilities	21,449	16,523
Other liabilities	138,272	78,200
Total Liabilities	9,675,253	7,371,042
Stockholders’ Equity		
Common stock, no par value; authorized 100,000,000 shares; issued 65,002,738 shares and outstanding 64,871,703 shares at December 31, 2022, and issued 50,737,400 shares and outstanding 50,606,365 shares at December 31, 2021	855,425	565,862
Retained earnings	329,375	259,340
Treasury shares, at cost, 131,035 shares at December 31, 2022 and December 31, 2021	(1,452)	(1,452)
Accumulated other comprehensive income	(74,761)	3,264
Total Stockholders’ Equity	1,108,587	827,014
Total Liabilities and Stockholders’ Equity	$ 10,783,840	$ 8,198,056

The accompanying notes are an integral part of these statements.

Lakeland Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income

	Years Ended December 31,		
(in thousands, except per share data)	2022	2021	2020
Interest Income			
Loans and fees	$ 325,001	$ 237,037	$ 229,036
Federal funds sold and interest-bearing deposits with banks	1,295	440	348
Taxable investment securities and other	35,352	17,208	17,811
Tax-exempt investment securities	5,895	2,633	1,647
Total Interest Income	367,543	257,318	248,842
Interest Expense			
Deposits	44,253	16,793	32,059
Federal funds purchased and securities sold under agreements to repurchase	3,658	78	556
Other borrowings	7,017	5,612	8,540
Total Interest Expense	54,928	22,483	41,155
Net Interest Income	312,615	234,835	207,687
Provision (benefit) for credit losses	8,514	(10,896)	27,222
Net Interest Income after Provision (Benefit) for Credit Losses	304,101	245,731	180,465
Noninterest Income			
Service charges on deposit accounts	10,985	9,856	9,148
Commissions and fees	9,116	6,939	5,868
Income on bank owned life insurance	3,980	2,676	2,657
Loss on equity securities	(1,302)	(285)	(552)
Gains on sales of loans	2,765	2,264	3,322
Gains on investment securities transactions, net	—	9	1,213
Swap income	1,576	634	4,719
Other income	979	268	735
Total Noninterest Income	28,099	22,361	27,110
Noninterest Expense			
Compensation and employee benefits	108,167	82,589	76,470
Premises and equipment	30,882	24,773	21,871
FDIC insurance expense	2,724	2,341	2,123
Data processing expense	6,238	5,454	4,964
Merger-related expenses	8,606	1,782	—
Other operating expenses	31,591	23,818	27,370
Total Noninterest Expense	188,208	140,757	132,798
Income before provision for income taxes	143,992	127,335	74,777
Provision for income taxes	36,623	32,294	17,259
Net Income	$ 107,369	$ 95,041	$ 57,518
Per Share of Common Stock			
Basic earnings	$ 1.64	$ 1.85	$ 1.13
Diluted earnings	$ 1.63	$ 1.85	$ 1.13
Cash dividends paid	$ 0.57	$ 0.53	$ 0.50

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, 2022	2021	2020
Net Income	$ 107,369	$ 95,041	$ 57,518
Other Comprehensive (Loss) Income, Net of Tax:			
Unrealized (losses) gains on securities available for sale	(77,474)	(10,651)	10,338
Reclassification for securities gains included in net income	—	(6)	(872)
Net gain on securities reclassified from available for sale to held to maturity	—	2,784	—
Amortization of gain on debt securities reclassified to held to maturity	(551)	(265)	—
Unrealized losses on derivatives	—	(25)	(292)
Change in pension liability, net	—	30	(25)
Other comprehensive (loss) income	(78,025)	(8,133)	9,149
Total Comprehensive Income	$ 29,344	$ 86,908	$ 66,667

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, 2022, 2021 and 2020

(in thousands)	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2020	$ 560,263	$ 162,752	$ —	$ 2,248	$ 725,263
Cumulative adjustment for adoption of ASU 2016-13	—	(3,395)	—	—	(3,395)
Net income	—	57,518	—	—	57,518
Other comprehensive income, net of tax	—	—	—	9,149	9,149
Treasury stock	—	—	(1,452)	—	(1,452)
Stock based compensation	2,659	—	—	—	2,659
Retirement of restricted stock	(501)	—	—	—	(501)
Cash dividends on common stock	—	(25,457)	—	—	(25,457)
Balance at December 31, 2020	$ 562,421	$ 191,418	$ (1,452)	$ 11,397	$ 763,784
Net income	—	95,041	—	—	95,041
Other comprehensive loss, net of tax	—	—	—	(8,133)	(8,133)
Stock based compensation	4,073	—	—	—	4,073
Retirement of restricted stock	(651)	—	—	—	(651)
Exercise of stock options	19	—	—	—	19
Cash dividends on common stock	—	(27,119)	—	—	(27,119)
Balance at December 31, 2021	$ 565,862	$ 259,340	$ (1,452)	$ 3,264	$ 827,014
Net income	—	107,369	—	—	107,369
Other comprehensive loss, net of tax	—	—	—	(78,025)	(78,025)
Issuance of stock	285,742	—	—	—	285,742
Stock based compensation	5,777	—	—	—	5,777
Retirement of restricted stock	(1,956)	—	—	—	(1,956)
Cash dividends on common stock	—	(37,334)	—	—	(37,334)
Balance at December 31, 2022	$ 855,425	$ 329,375	$ (1,452)	$ (74,761)	$ 1,108,587

The accompanying notes are an integral part of these statements.

Lakeland Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended December 31,		
(in thousands)	2022	2021	2020
Cash Flows from Operating Activities:			
Net income	$ 107,369	$ 95,041	$ 57,518
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization (accretion) of premiums, discounts and deferred loan fees and costs	5,918	(3,981)	(728)
Depreciation and amortization	5,138	5,126	3,858
Amortization of intangible assets	2,351	868	1,025
Amortization of operating lease right-of-use assets	9,319	2,267	2,668
Provision (benefit) for credit losses	8,514	(10,896)	27,222
Stock-based compensation	5,777	4,073	2,659
Loans originated for sale	(57,467)	(56,956)	(113,203)
Proceeds from sales of loans held for sale	66,259	58,612	116,933
Gains on investment securities transactions, net	—	(9)	(1,213)
Gains on sales of loans held for sale	(2,765)	(2,264)	(3,322)
Income on bank owned life insurance	(3,124)	(2,550)	(2,657)
Gain on death benefits from bank owned life insurance	(855)	(126)	—
Change in fair value of equity securities	1,302	285	552
Gains on other real estate and other repossessed assets	(23)	(32)	(88)
Loss on sale of premises and equipment	872	281	77
Impairment of property held for sale	345	—	—
Long-term debt prepayment penalty	—	—	4,133
Long-term debt extinguishment costs	—	831	—
Deferred tax expense (benefit)	2,747	5,422	(6,763)
Excess tax benefits (deficiencies)	69	(89)	(132)
(Increase) decrease in other assets	(68,863)	36,589	(53,982)
Increase (decrease) in other liabilities	41,813	(37,389)	50,434
Net Cash Provided by Operating Activities	124,696	95,103	84,991
Cash Flows from Investing Activities:			
Net cash acquired in acquisitions	326,236	—	—
Proceeds from repayments and maturities of available for sale securities	135,960	181,706	700,409
Proceeds from repayments and maturities of held to maturity securities	137,241	66,709	38,941
Proceeds from sales of equity securities	—	—	4,148
Proceeds from sales of available for sale securities	—	4,402	130,912
Purchase of available for sale securities	(312,904)	(611,589)	(921,343)
Purchase of held to maturity securities	(117,233)	(310,128)	(6,377)
Purchase of equity securities	(1,217)	(2,959)	(2,772)
Proceeds from redemptions of Federal Home Loan Bank stock	78,451	13,817	106,808
Purchases of Federal Home Loan Bank stock	(110,638)	(10,887)	(96,282)
Death benefit proceeds from bank owned life insurance	2,005	470	—
Net (increase) decrease in loans	(783,353)	35,945	(876,021)
Proceeds from sales of loans previously held for investment	—	21,765	—
Proceeds from dispositions and sales of bank premises and equipment	—	278	50
Purchases of premises and equipment	(6,432)	(4,851)	(7,539)
Proceeds from sales of other real estate and other repossessed assets	23	32	1,044
Net Cash Used in Investing Activities:	(651,861)	(615,290)	(928,022)

(in thousands)	Years Ended December 31, 2022	2021	2020
Cash Flows from Financing Activities:			
Net (decrease) increase in deposits	(48,469)	510,077	1,162,206
Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	622,344	(63,107)	(159,098)
Proceeds from other borrowings	—	—	25,000
Repayments of other borrowings	—	—	(169,948)
Purchase of treasury stock	—	—	(1,452)
Net proceeds from issuance of subordinated debt	—	147,738	—
Redemption of subordinated debentures	—	(88,330)	—
Exercise of stock options	—	19	—
Retirement of restricted stock	(1,956)	(651)	(501)
Dividends paid	(37,334)	(27,119)	(25,457)
Net Cash Provided by Financing Activities:	534,585	478,627	830,750
Net increase (decrease) in cash and cash equivalents	7,420	(41,560)	(12,281)
Cash and cash equivalents, beginning of year	228,530	270,090	282,371
Cash and cash equivalents, end of year	$ 235,950	$ 228,530	$ 270,090

	2022	2021	2020
Supplemental schedule of non-cash investing and financing activities:			
Cash paid during the period for income taxes	$ 37,227	$ 29,111	$ 22,486
Cash paid during the period for interest	52,110	23,372	42,600
Transfer of debt securities to held to maturity at fair value	—	494,164	—
Transfer of loans to loans held for sale	—	21,689	—
Transfer of loans into other real estate owned	—	—	393
Right-of-use assets obtained in exchange for new lease liabilities	1,158	717	1,159
Acquisitions:			
Non-cash assets acquired:			
Federal Home Loan Bank stock	1,247	—	—
Investment securities available for sale	217,774	—	—
Investment securities held to maturity	124,485	—	—
Loans held for sale	4,620	—	—
Loans	1,095,266	—	—
Fixed assets	13,748	—	—
Operating lease right-of-use assets, net	12,991	—	—
Goodwill and other intangible assets, net	124,570	—	—
Bank owned life insurance	37,580	—	—
Other assets	8,820	—	—
Total non-cash assets acquired	1,641,101	—	—
Liabilities assumed:			
Deposits	1,650,613	—	—
Subordinated debt	14,734	—	—
Operating lease liabilities	12,991	—	—
Other liabilities	3,257	—	—
Total liabilities assumed	1,681,595	—	—
Common stock issued for acquisitions	285,742	—	—

The accompanying notes are an integral part of these statements.

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

Note 1 - Summary of Significant 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. Lakeland also provides non-deposit products, such as securities brokerage services including mutual funds, variable annuities and insurance.

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 also provides warehouse lines of credit used by mortgage bankers to originate one-to-four family residential mortgage loans that are pre-sold into the secondary mortgage market, which includes state and national banks, national mortgage banking firms, insurance companies and government-sponsored enterprises, including the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and others.

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 U.S. generally accepted accounting principles ("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 estimate that is particularly susceptible to significant change in the near term relates to the allowance for credit losses. The policies regarding this estimate 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 the Company to fund itself with 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.

Securities

Debt investment securities are classified as held to maturity or available for sale. Management determines the appropriate classification of 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 or loss in stockholders' equity and excluded from the determination of net income. Gains or losses on disposition of securities are based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method.

For securities available for sale, the Company incorporates both qualitative and quantitative information when determining if impairment is related to credit loss or non-credit loss. Management may consider the extent to which fair value is less than amortized cost, adverse changes to the rating of the security by a rating agency, a security's market yield as compared to similar securities and adverse conditions related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows is less than the amortized cost basis, a credit loss exists and an allowance is created, limited by the amount that the fair value is less than the amortized cost basis. Subsequent activity related to the credit loss component in the form of write-offs or recoveries is recognized as part of the allowance for credit losses on securities available for sale.

The allowance for credit losses on held-to-maturity debt securities is initially recognized upon acquisition of the securities, and subsequently remeasured on a recurring basis. Held-to-maturity securities are reviewed upon acquisition to determine whether it has experienced a more-than-insignificant deterioration in credit quality since its original issuance date, i.e., if they meet the definition of a purchased credit impaired asset ("PCDs"). Non-PCD held-to-maturity securities are carried at cost and adjusted for amortization of premiums or accretion of discounts. Expected credit losses on held-to-maturity debt securities through the life of the financial instrument are estimated and recognized as an allowance for credit losses on the balance sheet with a corresponding adjustment to current earnings. Subsequent favorable or adverse changes in expected cash flow will first decrease or increase the allowance for credit losses.

Management measures expected credit losses on held to maturity securities on a collective basis by major security type. The held to maturity portfolio is classified into the following major security types: U.S. government agencies, mortgage-backed securities-residential, collateralized mortgage obligations-residential, mortgage-backed securities-multi-family, collateralized mortgage obligations-multi-family, obligations of states and political subdivisions and debt securities. All of the mortgage-backed securities are issued by U.S. government agencies and are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses and, therefore, the expectation of non-payment is zero.

At each reporting period, the Company evaluates whether the securities in a segment continue to exhibit similar risk characteristics as the other securities in the segment. If the risk characteristics of a security change, such that they are no longer similar to other securities in the segment, the Company will evaluate the security with a different segment that shares more similar risk characteristics. A range of historical losses method is utilized in estimating the net amount expected to be collected for mortgage-backed securities, collateralized mortgage obligations and obligations of states and political subdivisions.

A debt security, either available for sale or held to maturity, is designated as non-accrual if the payment of interest is past due and unpaid for 30 days or more. Once a security is placed on non-accrual, accrued interest receivable is reversed and further interest income recognition is ceased. Since the non-accrual policy results in a timely reversal of interest receivable, the Company does not record an allowance for credit losses on interest receivable. The security will not be restored to accrual status until the security has been current on interest payments for a sustained period, i.e., a consecutive period of six months or two quarters; and the Company expects repayment of the remaining contractual principal and interest. However, if the security continues to be in deferral status, or the Company does not expect to collect the remaining interest payments and the contractual principal, charge-off is to be assessed. Upon charge-off, the allowance is written off and the loss represents a permanent write-down of the cost basis of the security. The Company made the election to exclude accrued interest receivable on securities from the estimate of credit losses. Accrued interest receivable totaled $8.7 million and $5.3 million on investment securities at December 31, 2022 and 2021, respectively.

The Company has an equity securities portfolio which consists of investments in Community Reinvestment funds and investments in other financial institutions for market appreciation purposes. Net unrealized gains and losses for this portfolio are recognized through net income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are carried at the amount of unpaid principal and are net of unearned discount, unearned loan fees and an allowance for credit losses. The Company elected to exclude accrued interest receivable balances from the amortized cost basis. Interest receivable is included as a separate line item on the consolidated balance sheets. The Company also elected not to estimate an allowance on interest receivable balances because it has policies in place that provide for the accrual of interest to cease on a timely basis when all contractual amounts due are not expected and accrued and unpaid interest is reversed.

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.

The Company's loan portfolio of collectively evaluated loans includes nine portfolio segments, taking into consideration common loan attributes and risk characteristics, as well as historical reporting metrics and data availability. Loan attributes and risk characteristics considered in segmentation include: borrower type, repayment source, collateral type, product type, purpose or nature of financing, typical contractual maturity and repayment terms, interest rate structure, credit management metrics, lending policies and procedures, and personnel responsible for underwriting, approval, monitoring, and collections. The close alignment of the portfolio segments is consistent with shared drivers of credit loss (e.g., unemployment, interest rates, property values, etc.) expected among loans within the various segments.

The nine segments include:

1. Non-owner Occupied Commercial: Permanent mortgages extended to investors and secured by non-owner occupied commercial real estate, such as office, retail, industrial and mixed-use properties. Primary source of repayment for these loans is rental income. These loans are generally originated with contractual terms of up to ten years with amortization based on a 25-year schedule. They are generally fully advanced with no unfunded commitment.
2. Owner Occupied Commercial: Permanent mortgages extended to businesses and secured by owner occupied commercial real estate, such as office, retail, and industrial properties. Primary source of repayment for these loans is operating cash flow. These loans are generally originated with contractual terms of up to ten years with amortization based on a 25-year schedule. They are generally fully advanced with no unfunded commitment.
3. Multifamily: Permanent mortgages extended to investors and secured by multifamily residential real estate. Primary source of repayment for these loans is rental income. These loans are generally originated with contractual terms of up to ten years with amortization based on a 30-year schedule. They are generally fully advanced with no unfunded commitment.
4. Non-owner Occupied Residential: Permanent mortgages extended to investors and secured by one to four family residential real estate. Primary source of repayment for these loans is rental income. These loans are generally originated with contractual terms of up to ten years with amortization based on a 25-year schedule. They are generally fully advanced with no unfunded commitment.
5. Commercial, Industrial and Other: Commercial loans extended to businesses. These loans may be either unsecured or secured by various types of collateral, such as accounts receivable, inventory, equipment, and/or real estate. Primary source of repayment for these loans is operating cash flow. These loans are generally originated with terms of one to seven years and may be used for working capital (i.e. revolving lines of credit) or purchase of fixed assets (i.e. term loans). This category includes loans originated under the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"), which has no corresponding allowance for credit loss because they are 100% guaranteed by the SBA.
6. Construction: Interim loans for the development or construction of commercial or residential property. Repayment may come from either the sale or refinance of the real estate that secures the loan. These loans are typically originated with a term of one to three years with interest-only payments. These loans are advanced as development or construction progresses and usually reflect an unfunded commitment during the loan term.
7. Equipment Finance: Term financing extended to businesses. These loans are typically originated for the purchase of fixed assets, such as machinery, equipment, and vehicles and are secured by the acquired assets. Primary source of repayment for these loans is operating cash flow. These loans are generally originated with terms of three to five years with repayment in equal monthly installments over the term of the loan.
8. Residential: Permanent mortgages extended to consumers and secured by owner occupied one to four family residential real estate held in portfolio. Primary source of repayment for these loans is personal income. These

loans are generally originated with contractual terms of 15 to 30 years and are fully amortizing over their term. They are fully advanced at closing with no unfunded commitment.

9. Consumer: Loans extended to consumers with primary source of repayment being personal income. The Consumer segment includes home equity lines of credit, closed-end home equity loans (secured by both first and junior liens) and other consumer loans, such as automobile and revolving credit plans.

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.

Loans acquired in a business combination that have experienced a more-than-significant deterioration in credit quality since origination are considered PCD loans. Management evaluates acquired loans for deterioration in credit quality based on the following: (a) non-accrual status; (b) troubled debt restructured designation; (c) risk rating lower than "Pass," and (d) delinquency status. At the acquisition date, an estimate of expected credit losses is made for groups of PCD loans with similar risk characteristics and individual PCD loans without similar risk characteristics. This initial allowance for credit losses is allocated to individual PCD loans and added to the purchase price or acquisition date fair values to establish the initial amortized cost basis of the PCD loans. As the initial allowance for credit losses is added to the purchase price, there is no credit loss expense recognized upon acquisition of a PCD loan. Any difference between the unpaid principal balance of PCD loans and the amortized cost basis is considered to relate to noncredit factors and results in a discount or premium, which is recognized through interest income on a level-yield basis over the lives of the related loans. All loans considered to be purchased credit-impaired ("PCI") prior to the adoption of ASU 2016-13 were converted to PCD upon adoption.

For acquired loans not deemed to be PCD at acquisition, the differences between the initial fair value and the unpaid principal balance are recognized as interest income on a level-yield basis over the lives of the related loans. At the acquisition date, an initial allowance for expected credit losses is estimated and recorded as credit loss expense. The subsequent measurement of expected credit losses for all acquired loans is the same as the subsequent measurement of expected credit losses for originated loans.

Allowance for Credit Losses

With the adoption of ASU 2016-13, the allowance for credit losses reserve including the allowance for the funded portion and the reserve for the unfunded portion, represents management’s estimate of current expected credit losses in the Company’s loan portfolio over its expected life, which is the contract term adjusted for expected prepayments and options to extend the contractual term that are not unconditionally cancellable by us. Management’s measurement of expected credit losses is based on relevant information about past events, current conditions, prepayments and reasonable and supportable forecasts of future economic conditions. It is presented as an offset to the amortized cost basis or as a separate liability in the case of off-balance-sheet credit exposures. The Company uses an open pool loss-rate method to calculate an institution-specific historical loss rate based on historical loan level loss experience for collectively assessed loans with similar risk characteristics. The Company’s methodology considers relevant information about past and current economic conditions, as well as a single economic forecast over a reasonable and supportable period. The loss rate is applied over the remaining life of loans to develop a “baseline lifetime loss.” The baseline lifetime loss is adjusted for changes in macroeconomic variables, including but not limited to interest rates, housing prices, GDP and unemployment, over the reasonable and supportable forecast period. After the reasonable and supportable forecast period, the adjusted loss rate reverts on a straight-line basis to the historical loss rate. The reasonable and supportable forecast and the reversion periods are established for each portfolio segment. The Company measures expected credit losses of financial assets by multiplying the adjusted loss rates to the amortized cost basis of each asset taking into consideration amortization, prepayment and defaults. Changes in any of these factors, assumptions or the availability of new information, could require that the allowance be adjusted in future periods, perhaps materially.

Qualitative Adjustments: The Company considers five standard qualitative general reserve factors ("qualitative adjustments"): nature and volume of loans, lending management, policy and procedures, independent review and changes in environment. Qualitative adjustments are designed to address risks that are not captured in the quantitative reserves (“quantitative reserve”). Other qualitative adjustments or model overlays may also be recorded based on expert credit judgment in circumstances where, in the Company’s view, the standard qualitative reserve factors do not capture all relevant risk factors. The use of qualitative reserves may require significant judgment that may impact the amount of allowance recognized.

When an individual loan no longer demonstrates the similar credit risk characteristics as other loans within its current segment, the Company evaluates each for expected credit losses on an individual basis. All non-accrual loans $500,000 and above and all loans designated as troubled debt restructured loans (“TDRs”) are individually evaluated. For collateral-dependent loans, the Company considers the fair value of the collateral, net of anticipated selling costs and other adjustments. For non collateral-dependent individually evaluated loans, the impairment will be measured using the present value of expected future cash flows discounted at the loan's effective interest rate. 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.

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. Insignificant delays in payments are not considered TDRs. Loans that are classified as TDRs 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.

To identify loans which meet the definition of a reasonably expected TDR under ASC 326-20, the Company has determined the following criteria to be used in assessing whether a loan is considered a reasonably expected TDR:

- A loan with a risk rating of Special Mention, or worse;
- A loan identified as a foreclosure in process;
- Indicated via review and assessment that a modification is probable; and
- A modification approved, on a net concession/modification basis, that benefits the customer.

The methods for estimating expected credit losses on reasonably expected TDRs are the same as those specified for existing TDRs. Reasonably expected TDR’s $500,000 and above that are anticipated to remain on accrual status will normally have their reserves determined using the discounted cash flow method, while those below $500,000 will be included in, and be assessed as part of, the population of collectively evaluated pooled loans. Reasonably expected TDRs that are anticipated to be placed on non-accrual status will be considered collateral-dependent.

Off-Balance Sheet Credit Exposures

The Company is required to include the unfunded commitment that is expected to be funded in the future within the allowance calculation. The Company participates in lending that results in an off-balance-sheet unfunded commitment balance. Funding commitments are currently underwritten with conditionally cancellable language by the Company. To determine the expected funding balance remaining, the Company uses a historical utilization rate for each of the segments to calculate the expected commitment balance and determines the expected credit loss based on the same method used to calculate the quantitative reserve for funded loans, applied to the expected balance over the remaining life of the loan, taking into consideration amortization, prepayments and defaults. The allowance for credit reserve for unfunded lending commitments is recorded in other liabilities in the consolidated balance sheets and the corresponding provision is included in the provision for credit losses.

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, 2022 and 2021, Lakeland was servicing approximately $31.7 million and $35.3 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, 2022 and 2021, Lakeland had originated mortgage servicing rights of $149,000 and $188,000, 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.

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 (loss) 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 20 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 (loss), 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 or loss includes items recorded directly in equity such as unrealized gains or losses on securities available for sale, net gain on securities transferred from available for sale to held to maturity and unrealized gains or 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. Under ASU 2017-04, “Simplifying the Test for Goodwill Impairment” companies assess qualitative factors to determine whether it is more likely than not that the carrying amount of a reporting unit exceeds its fair value, commonly referred to as the qualitative assessment or step zero. Goodwill is allocated to Lakeland's one reporting unit at the date goodwill is actually recorded.

As of December 31, 2022, the carrying value of goodwill totaled $271.8 million. The Company performed its annual goodwill impairment test, as of November 30, 2022, and determined that the fair value of the Company’s single reporting unit to be in excess of its carrying value. The Company qualitatively assessed the current economic environment, including the estimated impact of the COVID-19 pandemic on macroeconomic variables and economic forecasts, and on the Company's stock price, considering how these might impact the fair value of its reporting unit. After consideration of these items, the Company determined that it was more-likely-than-not that the fair value of its reporting unit was above its book value as of our goodwill impairment test date. 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, 2022 and 2021, Lakeland had $157.0 million and $117.4 million, respectively, in BOLI. Income earned on BOLI was $4.0 million, $2.7 million and $2.7 million for the years ended December 31, 2022, 2021 and 2020. Included in income for 2022 and 2021 are death benefit proceeds of $855,000 and $126,000. There were no death benefit proceeds in 2020. 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 credit losses, core deposit intangibles, deferred loan fees, unrealized gains or losses on investment securities, tax exempt securities and deferred compensation.

Variable Interest Entities

Management has determined that Lakeland Bancorp Capital Trust II, Lakeland Bancorp Capital Trust IV and 1st Constitution Capital Trust II (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 $48.0 million at December 31, 2022, 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 - Business Combinations

Provident Financial Services, Inc.

On September 26, 2022, the Company entered into definitive merger agreement with Provident Financial Services, Inc. ("Provident") pursuant to which the companies will combine in an all-stock merger. Under the terms of the merger agreement, the Company will merge with and into Provident, with Provident as the surviving corporation, and Lakeland Bank will merge with and into Provident Bank, with Provident Bank as the surviving bank. Following the closing of the transaction, Lakeland shareholders will receive 0.8319 shares of Provident common stock for each share of Lakeland common stock they own. Upon completion of the transaction, Provident shareholders will own approximately 58% and Lakeland shareholders will own approximately 42% of the combined company. As of September 26, 2022, the transaction is valued at approximately $1.3 billion on a fully diluted basis. The combined company is expected to have more than $25 billion in total assets, $18 billion in total loans and $20 billion in total deposits.

The transaction has been approved by the boards of directors of both companies and on February 1, 2023, shareholders of each company approved the proposed merger. The merger is expected to close in the second quarter of 2023, subject to satisfaction of customary closing conditions, including receipt of customary regulatory approvals.

The Company incurred merger-related expenses on the anticipated transaction with Provident of $4.0 million during 2022.

1st Constitution Bancorp

On January 6, 2022, the Company completed its acquisition of 1st Constitution Bancorp ("1st Constitution"), a bank holding company headquartered in Cranbury, New Jersey. 1st Constitution was the parent of 1st Constitution Bank, which operated 25 branches in Bergen, Mercer, Middlesex, Monmouth, Ocean and Somerset 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 6, 2022, 1st Constitution merged into the Company and 1st Constitution Bank merged into Lakeland. Pursuant to the merger agreement, the shareholders of 1st Constitution received for each outstanding share of 1st Constitution common stock that they owned at the effective time of the merger, 1.3577 shares of Lakeland Bancorp, Inc. common stock. The Company issued 14,020,495 shares of its common stock in the merger. Outstanding 1st Constitution options were paid out in cash at the difference between $25.55 and an average strike price of $15.95 for a total cash payment of $559,000.

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. 1st Constitution's assets were recorded at their preliminary estimated fair values as of January 6, 2022 and 1st Constitution's results of operations have been 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 a third-party valuation specialist. The calculation of goodwill is subject to change for up to one year after the closing date of the transaction as additional information relative to closing date estimates and uncertainties becomes available. As the Company finalizes its analysis of these assets and liabilities, there may be adjustments to the recorded carrying values. The goodwill is not deductible for tax purposes.

The following table summarizes the estimated fair value of the acquired assets and liabilities assumed at the date of acquisition for 1st Constitution.

(in thousands)		
Assets acquired:		
Cash and cash equivalents	$	326,236
Securities, available for sale		217,774
Securities, held to maturity		124,485
Federal Home Loan Bank stock		1,247
Loans held for sale		4,620
Loans		1,095,266
Premises and equipment		13,748
Right-of-use assets, operating lease		12,991
Goodwill		115,552
Identifiable intangible assets		9,018
Bank owned life insurance		37,580
Accrued interest receivable and other assets		8,820
Total assets acquired		1,967,337
Deposits		(1,650,613)
Subordinated debt		(14,734)
Operating lease liabilities		(12,991)
Other liabilities		(3,257)
Total liabilities assumed		(1,681,595)
Net assets acquired	$	285,742

Loans acquired in the 1st Constitution 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 1st Constitution were estimated using the discounted cash flow method 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 based on the relative risk of the cash flows, taking into account the loan type, liquidity risk, maturity of the loans, servicing costs, and a required return on capital; the monthly principal and interest cash flows were discounted to present value and summed to arrive at the calculated value of loans.

For loans acquired without evidence of more-than-insignificant deterioration in credit quality since origination, the Company prepared the interest rate loan fair value and credit fair value adjustments. Loans were grouped into pools based on similar characteristics, such as loan type, fixed or adjustable interest rates, payment type, index rate and caps/floors, and non-accrual status. The loans were valued at the sub-pool level and were pooled at the summary level based on loan type. Market rates for similar loans were obtained from various internal and external data sources and reviewed by management for reasonableness. The average of these market rates was used as the fair value interest rate that a market participant would utilize.

Loans acquired that have experienced more-than-insignificant deterioration in credit quality since origination are considered PCD loans. The Company evaluated acquired loans for deterioration in credit quality based on any of, but not limited to, the following: (1) non-accrual status; (2) troubled debt restructured designation; (3) risk ratings of special mention, substandard or doubtful; and (4) delinquency status. At the acquisition date, an estimate of expected credit losses is made for groups of PCD loans with similar risk characteristics and individual PCD loans without similar risk characteristics. Additionally for PCD loans, an allowance for loan losses was calculated using management's best estimate of projected losses over the remaining life of the loans, in accordance with ASC 326-20. This represents the portion of loan balances that has been deemed uncollectible based on the Company's expectation of future cash flows for the PCD loans. For loans that were put in collection status immediately, Management made a best estimate of the loan's fair value based on an analysis of the credit and our lien position. For all other loans, the fair value was determined using discounted cash flows as described above for non-PCD loans.

The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired.

(in thousands)		
Gross amortized cost basis at January 6, 2022	$	1,110,600
Interest rate fair value adjustment on all loans		3,057
Credit fair value adjustment on non-PCD loans		(6,314)
Fair value of acquired loans at January 6, 2022		1,107,343
Allowance for credit losses on PCD loans		(12,077)
Fair value of acquired loans, net, as of January 6 2022	$	1,095,266

The following is a summary of the PCD loans acquired in the 1st Constitution acquisition as of the closing date.

(in thousands)		
Gross amortized cost basis at January 6, 2022	$	140,300
Interest component of expected cash flows (accretable difference)		(3,792)
Allowance for credit losses on PCD loans		(12,077)
Net PCD loans	$	124,431

The Company acquired 25 branches through the 1st Constitution merger, eight of which were owned premises. The fair value of the properties acquired was derived by valuations prepared by an independent third party using the sales comparison approach to value the property as improved.

As part of the 1st Constitution acquisition, the Company added 17 lease obligations. The Company recorded a $13.0 million right of use asset and lease liability for these lease obligations.

The core deposit intangible totaled $9.0 million and is being amortized over its estimated useful life of approximately ten years using an accelerated method. The goodwill will be evaluated annually for impairment and 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 deposit represent the present value of contractual cash flows discounted at market rates for similar certificates of deposit.

Direct costs related to the 1st Constitution acquisition were expensed as incurred. The Company recorded $4.6 million and $1.8 million in merger-related expenses related to the 1st Constitution acquisition in 2022 and 2021, respectively.

Supplemental Pro Forma Financial Information

The following table presents financial information regarding the former 1st Constitution operations included in the Consolidated Statements of Income from the date of the acquisition, January 6, 2022, through December 31, 2022. In addition the table provides condensed pro forma financial information assuming that the 1st Constitution acquisition had been completed as of January 1, for 2021 and 2022. The table has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisitions occurred as of the beginning of the periods presented, nor is it indicative of future results. The pro forma information does not reflect management's estimate of any revenue-enhancing opportunities nor anticipated cost savings that may have occurred as a result of the integration and consolidation of 1st Constitution's operations. The pro forma information reflects adjustments related to certain purchase accounting fair value adjustments, amortization of core deposit and other intangibles and related income tax effects.

(in thousands, except per share amounts)	Actual from acquisition to December 31, 2022	Pro forma December 31, 2022	Pro forma December 31, 2021
Net interest income	$ 50,218	$ 315,021	$ 293,590
Provision for loan losses	6	8,514	(8,796)
Noninterest income	17,077	27,797	36,936
Noninterest expense	30,216	191,241	185,355
Net income	26,947	106,663	114,581
Earnings per share:			
Fully diluted	$ 0.42	$ 1.62	$ 1.77

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, 2022	Income (Numerator)	Shares (Denominator)	Per Share Amount
(in thousands, except per share amounts)			
Basic earnings per share			
Net income available to common shareholders	$ 107,369	64,624	$ 1.66
Less: earnings allocated to participating securities	1,236	—	0.02
Net income available to common shareholders	106,133	64,624	1.64
Effect of dilutive securities			
Stock options and restricted stock	—	294	0.01
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	$ 106,133	64,918	$ 1.63

Year Ended December 31, 2021	Income (Numerator)	Shares (Denominator)	Per Share Amount
(in thousands, except per share amounts)			
Basic earnings per share			
Net income available to common shareholders	$ 95,041	50,624	$ 1.87
Less: earnings allocated to participating securities	1,142	—	0.02
Net income available to common shareholders	93,899	50,624	1.85
Effect of dilutive securities			
Stock options and restricted stock	—	246	—
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	$ 93,899	50,870	$ 1.85

Year Ended December 31, 2020	Income (Numerator)	Shares (Denominator)	Per Share Amount
(in thousands, except per share amounts)			
Basic earnings per share			
Net income available to common shareholders	$ 57,518	50,540	$ 1.14
Less: earnings allocated to participating securities	511	—	0.01
Net income available to common shareholders	57,007	50,540	1.13
Effect of dilutive securities			
Stock options and restricted stock	—	110	—
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	$ 57,007	50,650	$ 1.13

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

Note 4 - Securities

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

	December 31, 2022				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. Treasury and U.S. government agencies	$ 383,958	$ 100	$ (28,419)	$ —	$ 355,639
Mortgage-backed securities, residential	351,355	6	(40,748)	—	310,613
Collateralized mortgage obligations, residential	170,502	—	(16,444)	—	154,058
Mortgage-backed securities, multifamily	1,000	—	(215)	—	785
Collateralized mortgage obligations, multifamily	51,108	—	(4,775)	—	46,333
Asset-backed securities	54,105	—	(1,710)	—	52,395
Obligations of states and political subdivisions	22,112	—	(989)	(1)	21,122
Debt securities	124,394	—	(10,718)	(309)	113,367
Total	$ 1,158,534	$ 106	$ (104,018)	$ (310)	$ 1,054,312

	December 31, 2021				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. Treasury and U.S. government agencies	$ 202,961	$ 1,215	$ (789)	$ —	$ 203,387
Mortgage-backed securities, residential	238,456	1,250	(1,731)	—	237,975
Collateralized mortgage obligations, residential	191,086	1,693	(1,488)	—	191,291
Mortgage-backed securities, multifamily	1,816	—	(75)	—	1,741
Collateralized mortgage obligations, multifamily	32,254	511	(246)	—	32,519
Asset-backed securities	52,518	153	(87)	—	52,584
Debt securities	49,598	959	(15)	(83)	50,459
Total	$ 768,689	$ 5,781	$ (4,431)	$ (83)	$ 769,956

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

	December 31, 2022				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government agencies	$ 11,099	$ 11	$ (725)	$ —	$ 10,385
Mortgage-backed securities, residential	360,683	57	(58,128)	—	302,612
Collateralized mortgage obligations, residential	13,026	—	(2,570)	—	10,456
Mortgage-backed securities, multifamily	5,094	—	(747)	—	4,347
Obligations of states and political subdivisions	530,513	2	(100,400)	(7)	430,108
Debt securities	3,000	—	(353)	(100)	2,547
Total	$ 923,415	$ 70	$ (162,923)	$ (107)	$ 760,455

(in thousands)	December 31, 2021 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government agencies	$ 18,672	$ 293	$ —	$ —	$ 18,965
Mortgage-backed securities, residential	370,247	718	(5,989)	—	364,976
Collateralized mortgage obligations, residential	13,921	168	—	—	14,089
Mortgage-backed securities, multifamily	2,710	26	(2)	—	2,734
Obligations of states and political subdivisions	416,587	810	(5,800)	(21)	411,576
Debt securities	3,000	31	—	(160)	2,871
Total	$ 825,137	$ 2,046	$ (11,791)	$ (181)	$ 815,211

During the third quarter of 2021, the Company transferred $494.2 million of previously designated investment securities available for sale to a held to maturity designation at estimated fair value. The reclassification is permitted as the Company has appropriately determined the ability and intent to hold these securities as an investment until maturity or call. The securities transferred had an unrealized net gain of $3.8 million at the time of transfer, which is reflected, net of taxes, in accumulated other comprehensive income on the consolidated balance sheet. Subsequent amortization will be recognized over the life of the securities. The Company recorded net amortization of $551,000 and $265,000 during the years ended December 31, 2022 and 2021.

The following table lists contractual maturities of investment securities classified as available for sale and held to maturity as of December 31, 2022. 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.

(in thousands)	Available for Sale Amortized Cost	Available for Sale Fair Value	Held to Maturity Amortized Cost	Held to Maturity Fair Value
Due in one year or less	$ 41,272	$ 40,712	$ 62,985	$ 62,694
Due after one year through five years	262,776	244,661	32,212	30,794
Due after five years through ten years	163,384	147,959	79,764	68,306
Due after ten years	63,032	56,796	369,651	281,246
	530,464	490,128	544,612	443,040
Mortgage-backed and asset-backed securities	628,070	564,184	378,803	317,415
Total	$ 1,158,534	$ 1,054,312	$ 923,415	$ 760,455

For the year ended December 31, 2022, there were no sales of available for sale securities. There were proceeds from sales of available for sale securities of $4.4 million with gross gains on sales of securities of $9,000 and no gross losses on sales of securities for the year ended December 31, 2021. There were $130.9 million sales of securities for the year ended December 31, 2020 with gross gains on sales of securities of $1.3 million and gross losses on sales of securities of $248,000. 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 $1.34 billion and $1.04 billion at December 31, 2022 and December 31, 2021, respectively, were pledged to secure public deposits and for other purposes required by applicable laws and regulations.

The following tables indicate the length of time individual securities have been in a continuous unrealized loss position for the periods presented.

December 31, 2022	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	$ 114,514	$ 5,856	$ 229,094	$ 22,563	67	$ 343,608	$ 28,419
Mortgage-backed securities, residential	127,363	12,399	182,079	28,349	135	309,442	40,748
Collateralized mortgage obligations, residential	66,316	3,958	87,742	12,486	104	154,058	16,444
Mortgage-backed securities, multifamily	—	—	786	215	1	786	215
Collateralized mortgage obligations, multifamily	37,407	2,861	8,926	1,914	20	46,333	4,775
Asset-backed securities	34,871	977	17,524	733	17	52,395	1,710
Obligations of states and political subdivisions	3,771	276	16,746	713	46	20,517	989
Debt securities	88,489	7,437	22,880	3,281	49	111,369	10,718
Total	$ 472,731	$ 33,764	$ 565,777	$ 70,254	439	$ 1,038,508	$ 104,018
HELD TO MATURITY							
U.S. government agencies	$ 6,671	$ 336	$ 2,412	$ 389	3	$ 9,083	$ 725
Mortgage-backed securities, residential	$ 32,549	$ 2,275	$ 264,035	$ 55,853	182	$ 296,584	$ 58,128
Collateralized mortgage obligations, residential	4,668	516	5,787	2,054	12	10,455	2,570
Mortgage-backed securities, multifamily	2,671	376	1,676	371	4	4,347	747
Obligations of states and political subdivisions	82,459	3,689	341,076	96,711	379	423,535	100,400
Debt securities	—	—	2,647	353	1	2,647	353
Total	$ 129,018	$ 7,192	$ 617,633	$ 155,731	581	$ 746,651	$ 162,923

December 31, 2021	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	$ 76,106	$ 322	$ 14,670	$ 467	15	$ 90,776	$ 789
Mortgage-backed securities, residential	176,990	1,465	14,582	266	45	191,572	1,731
Collateralized mortgage obligations, residential	86,749	1,429	5,000	59	18	91,749	1,488
Mortgage-backed securities, multifamily	—	—	1,741	75	1	1,741	75
Collateralized mortgage obligations, multifamily	9,083	210	1,072	36	4	10,155	246
Asset-backed securities	14,688	87	—	—	3	14,688	87
Debt securities	15,325	(5)	980	20	8	16,305	15
Total	$ 378,941	$ 3,508	$ 38,045	$ 923	94	$ 416,986	$ 4,431
HELD TO MATURITY							
Mortgage-backed securities, residential	$ 340,474	$ 5,882	$ 2,376	$ 107	96	$ 342,850	$ 5,989
Mortgage-backed securities, multifamily	2,051	2	—	—	1	2,051	2
Obligations of states and political subdivisions	307,827	5,800	—	—	239	307,827	5,800
Total	$ 650,352	$ 11,684	$ 2,376	$ 107	336	$ 652,728	$ 11,791

For available for sale securities, the Company assesses whether a loss is from credit or other factors and considers the extent to which fair value is less than amortized cost, adverse changes to the rating of the security by a rating agency, a security's market yield as compared to similar securities and adverse conditions related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows is less than the amortized cost, a credit loss exists and an allowance is created, limited by the amount that the fair value is less than the amortized cost basis.

For held to maturity securities, management measures expected credit losses on a collective basis by major security type. All of the mortgage-backed securities are issued by U.S. government agencies and are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses and, therefore, the expectation of non-payment is zero. A range of historical losses method is utilized in estimating the net amount expected to be collected for mortgage-backed securities, collateralized mortgage obligations and obligations of states and political subdivisions.

The gross unrealized losses reported for residential mortgage-backed securities relate to investment securities issued by U.S. government sponsored entities such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, and U.S. government agencies such as Government National Mortgage Association. The total gross unrealized losses, shown in the tables above, were primarily attributable to changes in interest rates and levels of market liquidity, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities.

Credit Quality Indicators

Credit ratings, which are updated monthly, are a key measure for estimating the probability of a bond's default and for monitoring credit quality on an on-going basis. For bonds other than U.S. Treasuries and bonds issued or guaranteed by U.S. government agencies, credit ratings issued by one or more nationally recognized statistical rating organizations are considered in conjunction with an assessment by the Company's management. Investment grade reflects a credit quality of A or above.

The tables below indicate the credit profile of the Company's investment securities held to maturity at amortized cost for the periods presented.

December 31, 2022	AAA	AA	A	BBB	Not Rated	Total
(in thousands)						
U.S. Treasury and U.S. government agencies	$ 11,099	$ —	$ —	$ —	$ —	$ 11,099
Mortgage-backed securities, residential	360,683	—	—	—	—	360,683
Collateralized mortgage obligations, residential	13,026	—	—	—	—	13,026
Mortgage-backed securities, multifamily	5,094	—	—	—	—	5,094
Obligations of states and political subdivisions	156,661	317,566	1,020	—	55,266	530,513
Debt securities	—	—	—	3,000	—	3,000
Total	$ 546,563	$ 317,566	$ 1,020	$ 3,000	$ 55,266	$ 923,415

December 31, 2021	AAA	AA	A	BBB	Not Rated	Total
(in thousands)						
U.S. Treasury and U.S. government agencies	$ 18,672	$ —	$ —	$ —	$ —	$ 18,672
Mortgage-backed securities, residential	370,247	—	—	—	—	370,247
Collateralized mortgage obligations, residential	13,921	—	—	—	—	13,921
Mortgage-backed securities, multifamily	2,710	—	—	—	—	2,710
Obligations of states and political subdivisions	143,777	270,909	1,068	—	833	416,587
Debt securities	—	—	—	3,000	—	3,000
Total	$ 549,327	$ 270,909	$ 1,068	$ 3,000	$ 833	$ 825,137

Equity securities at fair value

The Company has an equity securities portfolio which consists of investments in Community Reinvestment funds. The fair value of the equity portfolio was $17.3 million and $17.4 million at December 31, 2022 and December 31, 2021, respectively. The Company recorded no sales of equity securities for the years ended December 31, 2022 and 2021 and in 2020, there were $4.1 million of proceeds from sales of equity securities. The Company recorded $1.3 million, $285,000 and $552,000 in fair value losses on equity securities in noninterest income for the years ended December 31, 2022, 2021 and 2020, respectively.

As of December 31, 2022, the Company's investments in Community Reinvestment funds include $7.8 million that are primarily invested in community development loans that are guaranteed by the SBA. Because the funds are primarily guaranteed by the federal government, there are minimal changes in fair value between accounting periods. These funds can be redeemed with 60 days' notice at the net asset value less unpaid management fees with the approval of the fund manager. As of December 31, 2022, the net amortized cost equaled the fair value of the investment. There are no unfunded commitments related to these investments.

The Community Reinvestment funds also include $9.5 million of investment in government guaranteed loans, mortgage-backed securities, small business loans and other instruments supporting affordable housing and economic development as of December 31, 2022. The Company may redeem these funds at the net asset value calculated at the end of the current business day less any unpaid management fees. There are no restrictions on redemptions for the holdings in these investments other than the notice required by the fund manager. There are no unfunded commitments related to these investments.

Note 5 – Loans

The following table summarizes the composition of the Company's loan portfolio.

(in thousands)	December 31, 2022	December 31, 2021
Non-owner occupied commercial	$ 2,906,014	$ 2,316,284
Owner occupied commercial	1,246,189	908,449
Multifamily	1,260,814	972,233
Non-owner occupied residential	218,026	177,097
Commercial, industrial and other	606,711	462,406
Construction	380,100	302,228
Equipment finance	151,574	123,212
Residential mortgage	765,552	438,710
Consumer	331,070	275,529
Total	$ 7,866,050	$ 5,976,148

Loans are recognized at amortized cost, which includes principal balance and net deferred loan fees and costs. The Company elected to exclude accrued interest receivable from amortized cost. Accrued interest receivable is reported separately in the Consolidated Balance Sheets and totaled $24.5 million at December 31, 2022 and $13.9 million at December 31, 2021. Loan origination fees and certain direct loan origination costs are deferred and the net fee or cost is recognized in interest income as an adjustment of yield. Net deferred loan fees are included in loans by respective segment and total $2.1 million and $5.8 million at December 31, 2022 and December 31, 2021, respectively.

At December 31, 2022 and December 31, 2021, Small Business Association ("SBA") Paycheck Protection Program ("PPP") loans totaled $435,000 and $56.6 million, respectively, and are included in the balance of commercial, industrial and other loans. Consumer loans included overdraft deposit balances of $1.3 million and $184,000 at December 31, 2022 and December 31, 2021, respectively. Loans pledged for potential borrowings at the FHLB totaled $2.89 billion and $2.30 billion at December 31, 2022 and December 31, 2021, respectively.

Credit Quality Indicators

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. Lakeland assigns a credit risk rating to all 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 the loan portfolios. The risk rating system assists senior management in evaluating the loan portfolio and analyzing trends. In assigning risk ratings, management considers, among other things, the borrower's ability to service the debt based on relevant information such as current financial information, historical payment experience, credit documentation, public information and current economic conditions.

Management categorizes loans and commitments into the following risk ratings:

Pass: "Pass" assets are well protected by the current net worth and paying capacity of the obligor or guarantors, if any, or by the fair value of any underlying collateral.

Watch: "Watch" assets require 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.

Special Mention: "Special mention" assets exhibit 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.

Substandard: "Substandard" assets 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.

Doubtful: "Doubtful" assets 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.

Loss: "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 presents the risk category of loans by class of loan and vintage as of December 31, 2022.

	Term Loans by Origination Year								
(in thousands)	2022	2021	2020	2019	2018	Pre-2018	Revolving Loans	Revolving to Term	Total
Non-owner occupied commercial									
Pass	$ 673,235	$ 391,748	$ 495,618	$ 271,109	$ 183,971	$ 703,852	$ 19,317	$ 2,502	$ 2,741,352
Watch	1,272	—	21,720	26,906	12,099	48,314	—	—	110,311
Special mention	—	—	494	830	15,586	16,304	—	—	33,214
Substandard	—	—	—	—	133	21,004	—	—	21,137
Total	674,507	391,748	517,832	298,845	211,789	789,474	19,317	2,502	2,906,014
Owner occupied commercial									
Pass	267,754	198,131	191,603	85,343	61,581	317,434	13,328	—	1,135,174
Watch	—	—	2,888	3,520	4,728	28,659	75	—	39,870
Special mention	585	17,778	5,749	1,862	3,701	20,292	—	—	49,967
Substandard	—	97	8,876	1,899	475	9,831	—	—	21,178
Total	268,339	216,006	209,116	92,624	70,485	376,216	13,403	—	1,246,189
Multifamily									
Pass	312,910	221,306	265,187	67,072	95,432	249,021	5,288	—	1,216,216
Watch	—	5,817	11,692	—	—	2,504	—	—	20,013
Special mention	500	—	2,421	—	—	11,274	—	—	14,195
Substandard	—	—	—	3,864	—	6,526	—	—	10,390
Total	313,410	227,123	279,300	70,936	95,432	269,325	5,288	—	1,260,814
Non-owner occupied residential									
Pass	37,445	29,365	22,133	24,205	18,489	67,114	7,513	21	206,285
Watch	—	—	—	2,068	—	5,244	75	—	7,387
Special mention	—	—	—	507	822	1,017	—	—	2,346
Substandard	—	—	—	—	—	2,008	—	—	2,008
Total	37,445	29,365	22,133	26,780	19,311	75,383	7,588	21	218,026
Commercial, industrial and other									
Pass	48,719	51,894	27,644	57,124	13,936	39,892	339,040	245	578,494
Watch	251	704	237	211	—	1,424	10,001	—	12,828
Special mention	375	258	—	179	36	378	4,878	—	6,104
Substandard	776	242	—	450	4,722	183	2,912	—	9,285
Total	50,121	53,098	27,881	57,964	18,694	41,877	356,831	245	606,711

(in thousands)	Term Loans by Origination Year 2022	2021	2020	2019	2018	Pre-2018	Revolving Loans	Revolving to Term	Total
Construction									
Pass	79,420	172,849	35,295	31,447	7,245	4,005	19,294	—	349,555
Watch	1,159	5,480	10,299	—	—	—	171	—	17,109
Substandard	—	95	—	—	—	13,341	—	—	13,436
Total	80,579	178,424	45,594	31,447	7,245	17,346	19,465	—	380,100
Equipment finance									
Pass	74,840	36,087	20,382	15,738	3,862	546	—	—	151,455
Substandard	—	—	—	97	22	—	—	—	119
Total	74,840	36,087	20,382	15,835	3,884	546	—	—	151,574
Residential mortgage									
Pass	323,636	167,791	110,199	35,180	20,218	106,391	—	—	763,415
Substandard	—	—	—	490	341	1,306	—	—	2,137
Total	323,636	167,791	110,199	35,670	20,559	107,697	—	—	765,552
Consumer									
Pass	47,282	31,368	8,658	4,143	3,093	21,482	213,857	—	329,883
Substandard	33	—	—	—	23	853	278	—	1,187
Total	47,315	31,368	8,658	4,143	3,116	22,335	214,135	—	331,070
Total loans	$ 1,870,192	$ 1,331,010	$ 1,241,095	$ 634,244	$ 450,515	$ 1,700,199	$ 636,027	$ 2,768	$ 7,866,050

The following table presents the risk category of loans by class of loan and vintage as of December 31, 2021.

(in thousands)	Term Loans by Origination Year 2021	2020	2019	2018	2017	Pre-2017	Revolving Loans	Revolving to Term	Total
Non-owner occupied commercial									
Pass	$ 363,459	$ 516,131	$ 295,944	$ 189,592	$ 195,733	$ 562,338	$ 18,795	—	$ 2,141,992
Watch	—	—	25,292	14,660	4,641	47,011	130	—	91,734
Special mention	—	458	—	5,749	14,639	6,602	—	—	27,448
Substandard	119	431	332	2,656	8,000	43,572	—	—	55,110
Total	363,578	517,020	321,568	212,657	223,013	659,523	18,925	—	2,316,284
Owner occupied commercial									
Pass	209,515	133,292	83,395	54,019	48,850	252,001	8,343	108	789,523
Watch	—	5,757	2,134	900	280	24,873	—	—	33,944
Special mention	—	9,694	21,837	12,632	95	17,851	—	—	62,109
Substandard	5	—	—	2,597	1,299	18,972	—	—	22,873
Total	209,520	148,743	107,366	70,148	50,524	313,697	8,343	108	908,449
Multifamily									
Pass	225,060	255,016	72,438	71,366	73,122	207,509	18,161	1,281	923,953
Watch	—	966	—	13,709	854	6,497	—	—	22,026
Special mention	—	2,470	—	—	8,944	2,948	—	—	14,362
Substandard	—	—	5,485	1,321	—	4,987	99	—	11,892
Total	225,060	258,452	77,923	86,396	82,920	221,941	18,260	1,281	972,233
Non-owner occupied residential									
Pass	28,476	18,527	16,928	15,695	18,048	51,194	7,288	—	156,156
Watch	—	—	—	—	651	5,057	—	—	5,708
Special mention	—	—	523	837	1,205	284	515	—	3,364
Substandard	—	3,062	510	4,797	988	2,512	—	—	11,869
Total	28,476	21,589	17,961	21,329	20,892	59,047	7,803	—	177,097

(in thousands)	Term Loans by Origination Year 2021	2020	2019	2018	2017	Pre-2017	Revolving Loans	Revolving to Term	Total
Commercial, industrial and other									
Pass	100,921	23,940	65,225	11,636	3,808	37,479	191,293	872	435,174
Watch	939	461	446	—	1,378	173	5,056	—	8,453
Special mention	—	—	—	—	1,896	443	1,365	—	3,704
Substandard	101	7,352	—	1,276	496	422	5,428	—	15,075
Total	101,961	31,753	65,671	12,912	7,578	38,517	203,142	872	462,406
Construction									
Pass	108,585	84,993	40,847	30,125	23,578	3,654	—	—	291,782
Special mention	—	—	—	—	10,446	—	—	—	10,446
Total	108,585	84,993	40,847	30,125	34,024	3,654	—	—	302,228
Equipment finance									
Pass	50,482	30,486	27,626	10,238	3,128	803	—	—	122,763
Substandard	—	—	216	177	56	—	—	—	449
Total	50,482	30,486	27,842	10,415	3,184	803	—	—	123,212
Residential mortgage									
Pass	171,442	112,680	27,228	20,784	9,103	96,510	—	—	437,747
Substandard	12	—	—	123	694	134	—	—	963
Total	171,454	112,680	27,228	20,907	9,797	96,644	—	—	438,710
Consumer									
Pass	35,283	10,476	5,358	4,561	3,260	24,888	190,481	34	274,341
Substandard	32	—	—	—	—	630	526	—	1,188
Total	35,315	10,476	5,358	4,561	3,260	25,518	191,007	34	275,529
Total loans	$ 1,294,431	$ 1,216,192	$ 691,764	$ 469,450	$ 435,192	$ 1,419,344	$ 447,480	$ 2,295	$ 5,976,148

Past Due and Non-accrual Loans

Loans are considered past due if required principal and interest payments have not been received as of the date such payments were contractually due. A loan is generally considered non-performing when it is placed on non-accrual status. A loan is generally placed on non-accrual status when it becomes 90 days past due if such loan has been identified as presenting uncertainty with respect to the collectability of interest and principal. A loan past due 90 days or more may remain on accruing status if such loan is both well secured and in the process of collection.

In the absence of other intervening factors, loans granted payment deferrals related to COVID-19 are not reported as past due or placed on non-accrual status provided the borrowers have met the criteria in the CARES Act, the Appropriations Act or otherwise have met the criteria included in an interagency statement issued by bank regulatory agencies.

The following tables present the payment status of the recorded investment in past due loans as of the periods noted, by class of loans.

December 31, 2022		Past Due				
(in thousands)	Current	30 - 59 Days	60 - 89 Days	Greater than 89 days	Total	Total Loans
Non-owner occupied commercial	$ 2,905,049	$ 346	$ —	$ 619	$ 965	$ 2,906,014
Owner occupied commercial	1,235,134	2,854	477	7,724	11,055	1,246,189
Multifamily	1,260,135	—	679	—	679	1,260,814
Non-owner occupied residential	217,407	178	—	441	619	218,026
Commercial, industrial and other	603,731	55	3	2,922	2,980	606,711
Construction	379,120	—	—	980	980	380,100
Equipment finance	150,842	494	238	—	732	151,574
Residential mortgage	760,638	3,031	271	1,612	4,914	765,552
Consumer	330,119	841	62	48	951	331,070
Total	$ 7,842,175	$ 7,799	$ 1,730	$ 14,346	$ 23,875	$ 7,866,050

December 31, 2021		Past Due				
(in thousands)	Current	30-59 Days	60-89 Days	Greater than 89 days	Total	Total Loans
Non-owner occupied commercial	$ 2,312,557	$ —	$ 718	$ 3,009	$ 3,727	$ 2,316,284
Owner occupied commercial	905,751	20	—	2,678	2,698	908,449
Multifamily	972,233	—	—	—	—	972,233
Non-owner occupied residential	174,245	—	136	2,716	2,852	177,097
Commercial, industrial and other	461,659	154	—	593	747	462,406
Construction	302,228	—	—	—	—	302,228
Equipment finance	122,923	211	41	37	289	123,212
Residential mortgage	437,574	255	64	817	1,136	438,710
Consumer	274,426	705	135	263	1,103	275,529
Total	$ 5,963,596	$ 1,345	$ 1,094	$ 10,113	$ 12,552	$ 5,976,148

The following tables present information on non-accrual loans at December 31, 2022 and December 31, 2021.

December 31, 2022

(in thousands)	Non-accrual	Interest Income Recognized on Non-accrual Loans	Amortized Cost Basis of Loans >= 90 days Past due but still accruing	Amortized Cost Basis of Non-accrual Loans without Related Allowance
Non-owner occupied commercial	$ 618	$ —	$ —	$ —
Owner occupied commercial	9,439	—	—	8,859
Non-owner occupied residential	441	—	—	440
Commercial, industrial and other	2,978	—	—	—
Construction	980	—	—	980
Equipment finance	114	—	—	—
Residential mortgage	2,011	—	—	—
Consumer	781	—	—	79
Total	$ 17,362	$ —	$ —	$ 10,358

December 31, 2021

(in thousands)	Non-accrual	Interest Income Recognized on Non-accrual Loans	Amortized Cost Basis of Loans >= 90 days Past due but still accruing	Amortized Cost Basis of Non-accrual Loans without Related Allowance
Non-owner occupied commercial	$ 3,009	$ —	$ —	$ 2,624
Owner occupied commercial	2,810	—	—	2,398
Non-owner occupied residential	2,852	—	—	2,567
Commercial, industrial and other	6,763	—	—	1,122
Equipment finance	43	—	—	—
Residential mortgage	817	—	—	694
Consumer	687	—	1	—
Total	$ 16,981	$ —	$ 1	$ 9,405

At December 31, 2022, there were no loans that were past due more than 89 days and still accruing and at December 31, 2021, there was one loan with a recorded investment of $1,000 that was past due more than 89 days and still accruing. At December 31, 2022 and 2021, the Company had $898,000 and $930,000, respectively, in residential mortgages and consumer home equity loans included in total non-accrual loans that were in the process of foreclosure.

Purchased Credit Deteriorated Loans

The following summarized the PCD loans acquired in the 1st Constitution acquisition as of the closing date, January 6, 2022.

(in thousands)		
Gross amortized cost basis	$	140,300
Interest component of expected cash flows (accretable difference)		(3,792)
Allowance for credit losses on PCD loans		(12,077)
Net PCD loans	$	124,431

At December 31, 2022, net PCD loans acquired from 1st Constitution totaled $83.1 million.

Troubled Debt Restructurings

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

The CARES Act and related legislation provided relief from TDR classification for certain loan modifications related to the COVID-19 pandemic beginning March 1, 2020 through December 31, 2021. Additionally, banking regulatory agencies issued interagency guidance that COVID-19 related short-term modifications (i.e., six months or less) granted to borrowers that were current as of the loan modification program implementation date do not need to be considered TDRs. The Company elected this provision of the CARES Act and excluded modified loans that met the required guidelines for relief from its TDR classification. At December 31, 2021, no loans were on COVID-related deferrals as the remaining 90-day loan deferments expired and borrowers began paying their pre-deferral loan payments in the first quarter of 2021.

At December 31, 2022, TDRs totaled $2.6 million and were all accruing. At December 31, 2021, TDRs totaled $3.5 million, with accruing TDRs and non-accrual TDRs totaling $3.3 million and $127,000, respectively. There were no loans that was restructured during 2022 that met the definition of a TDR, while one consumer loan totaling $115,000 was restructured during 2021 that met the definition of a TDR. There were no restructured loans that subsequently defaulted in 2022 or 2021.

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, 2022 and 2021, loans to these related parties amounted to $67.5 million and $64.0 million, respectively. There were new loans of $15.3 million to related parties and repayments of $11.8 million from related parties in 2022.

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, 2022, Lakeland had $536,000 in mortgages held for sale compared to $1.9 million as of December 31, 2021.

Equipment Finance Receivables

Future minimum payments of equipment finance receivables at December 31, 2022 are expected as follows:

(in thousands)		
2023	$	48,726
2024		40,900
2025		30,713
2026		20,317
2027		9,260
Thereafter		1,658
	$	151,574

Other Real Estate and Other Repossessed Assets

At December 31, 2022 and December 31, 2021, Lakeland had no other real estate owned and held no other repossessed assets. For the years ended December 31, 2022 and December 31, 2021, Lakeland had no writedowns of other real estate owned and for the year ended December 31, 2020 had writedowns of $39,000 recorded in other expense in the Consolidated Statement of Income.

Note 6 - Allowance for Credit Losses

The Company measures expected credit losses for financial assets measured at amortized cost, including loans, investments and certain off-balance-sheet credit exposures in accordance with ASU 2016-13. See Note 1 - Summary of Significant Accounting Policies for a description of the Company's allowance methodology.

Under the standard, the Company's methodology for determining the allowance for credit losses on loans is based upon key assumptions, including the lookback periods, historic net charge-off factors, economic forecasts, reversion periods, prepayments and qualitative adjustments. The allowance is measured on a collective, or pool, basis when similar risk characteristics exist. Loans that do not share common risk characteristics are evaluated on an individual basis and are excluded from the collective evaluation. At December 31, 2022, loans totaling $7.77 billion were evaluated collectively and the allowance on these balances totaled $66.2 million and loans evaluated on an individual basis totaled $99.7 million with the specific allocations of the allowance for credit losses totaling $4.1 million.

Federal regulatory agencies, as an integral part of their examination process, review our loans and the corresponding allowance for credit losses. While we believe that our allowance for credit losses on loans in relation to our current loan portfolio is adequate to cover current and expected losses, we cannot assure you that we will not need to increase our allowance for credit losses on loans or that the regulators will not require us to increase this allowance. Future increases in our allowance for credit losses on loans could materially and adversely affect our earnings and profitability.

Allowance for Credit Losses - Loans

The allowance for credit losses is summarized in the following table.

(in thousands)	2022	2021
Balance at beginning of the period	$ 58,047	$ 71,124
Initial allowance for credit losses on PCD loans	12,077	—
Charge-offs on PCD loans	(7,634)	—
Charge-offs	(733)	(4,589)
Recoveries	819	2,427
Net (charge-offs) recoveries	(7,548)	(2,162)
Provision for credit loss - loans	7,688	(10,915)
Balance at end of the period	$ 70,264	$ 58,047

Accrued interest receivable on loans, reported as a component of accrued interest receivable on the consolidated balance sheet, totaled $24.5 million and $13.9 million at December 31, 2022 and December 31, 2021, respectively. The Company made the election to exclude accrued interest receivable from the estimate of credit losses.

The allowance for credit losses increased to $70.3 million, 0.89% of total loans, at December 31, 2022, compared to $58.0 million, 0.97% of total loans, at December 31, 2021, was primarily due to the initial allowance for credit losses on PCD loans acquired from 1st Constitution. The decrease in the allowance as a percentage of total loans is principally due to improvement in macroeconomic conditions and a decrease in historical loss experience.

The 2022 provision was predominantly due to the provision for the 1st Constitution's acquired non-purchased credit deteriorated loans and the growth in the loan portfolio. Charge-offs in 2022 include $7.6 million in charge-offs on 1st Constitution's acquired PCD loans. The benefit of credit losses in 2021 was largely due to an improvement in macroeconomic factors. Non-performing loans totaling $21.7 million were sold during 2021 resulting in net charge-offs of $706,000.

The following tables detail activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2022 and 2021.

(in thousands)	Balance at December 31, 2021	Initial allowance for credit losses on PCD loans	Charge-offs	Recoveries	Provision (Benefit) for Credit Loss - Loans	Balance at December 31, 2022
Non-owner occupied commercial	$ 20,071	$ 1,312	$ (4)	$ 4	$ 2,079	$ 23,462
Owner occupied commercial	3,964	1,137	(38)	351	1,282	6,696
Multifamily	8,309	4	—	—	1,112	9,425
Non-owner occupied residential	2,380	175	—	14	74	2,643
Commercial, industrial and other	9,891	2,413	(1,128)	151	(2,491)	8,836
Construction	838	6,843	(6,807)	3	2,091	2,968
Equipment finance	3,663	—	(184)	114	(148)	3,445
Residential mortgage	3,914	179	—	48	3,900	8,041
Consumer	5,017	14	(206)	134	(211)	4,748
Total	$ 58,047	$ 12,077	$ (8,367)	$ 819	$ 7,688	$ 70,264

(in thousands)	Balance at December 31, 2020	Charge-offs	Recoveries	(Benefit) Provision for Credit Loss - Loans	Balance at December 31, 2021
Non owner occupied commercial	$ 25,910	$ (2,708)	$ 462	$ (3,593)	$ 20,071
Owner occupied commercial	3,955	(282)	302	(11)	3,964
Multifamily	7,253	(28)	—	1,084	8,309
Non owner occupied residential	3,321	(223)	165	(883)	2,380
Commercial, industrial and other	13,665	(401)	888	(4,261)	9,891
Construction	786	(54)	75	31	838
Equipment finance	6,552	(346)	61	(2,604)	3,663
Residential mortgage	3,623	(113)	177	227	3,914
Consumer	6,059	(434)	297	(905)	5,017
Total	$ 71,124	$ (4,589)	$ 2,427	$ (10,915)	$ 58,047

The following tables present the recorded investment in loans by portfolio segment and the related allowance for credit or loan losses for the years ended December 31, 2022 and 2021.

December 31, 2022	Loans				Allowance for Credit Losses		
(in thousands)	Individually evaluated	Collectively evaluated	Acquired with deteriorated credit quality	Total	Individually evaluated	Collectively evaluated	Total
Non-owner occupied commercial	$ —	$ 2,871,950	$ 34,064	$ 2,906,014	$ 753	$ 22,709	$ 23,462
Owner occupied commercial	12,041	1,202,919	31,229	1,246,189	983	5,713	6,696
Multifamily	—	1,254,412	6,402	1,260,814	5	9,420	9,425
Non-owner occupied residential	441	216,516	1,069	218,026	16	2,627	2,643
Commercial, industrial and other	2,806	594,568	9,337	606,711	2,150	6,686	8,836
Construction	980	379,120	—	380,100	—	2,968	2,968
Equipment finance	—	151,574	—	151,574	—	3,445	3,445
Residential mortgage	—	764,340	1,212	765,552	181	7,860	8,041
Consumer	—	330,920	150	331,070	3	4,745	4,748
Total loans	$ 16,268	$ 7,766,319	$ 83,463	$ 7,866,050	$ 4,091	$ 66,173	$ 70,264

December 31, 2021	Loans				Allowance for Credit Losses		
(in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Acquired with deteriorated credit quality	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Non owner occupied commercial	$ 3,063	$ 2,313,047	$ 174	$ 2,316,284	$ —	$ 20,071	$ 20,071
Owner occupied commercial	6,678	901,638	133	908,449	69	3,895	3,964
Multifamily	—	972,233	—	972,233	—	8,309	8,309
Non owner occupied residential	2,567	174,463	67	177,097	—	2,380	2,380
Commercial, industrial and other	6,537	455,306	563	462,406	4,182	5,709	9,891
Construction	—	302,228	—	302,228	—	838	838
Equipment finance	—	123,212	—	123,212	—	3,663	3,663
Residential mortgage	1,416	437,294	—	438,710	—	3,914	3,914
Consumer	—	275,529	—	275,529	—	5,017	5,017
Total loans	$ 20,261	$ 5,954,950	$ 937	$ 5,976,148	$ 4,251	$ 53,796	$ 58,047

Allowance for Credit Losses - Securities

At December 31, 2022, the balance of the allowance for credit loss on available for sale and held to maturity securities was $310,000 and $107,000, respectively. At December 31, 2021, the Company reported an allowance for credit losses of $83,000 on available for sale securities and of $181,000 on held to maturity securities. For the year ended December 31, 2022, the Company recorded a net provision for credit losses of $227,000 on securities available for sale and a net benefit of $74,000 on securities held to maturity in the provision for credit losses on the Consolidated Statement of Income. For the year ended December 31, 2021, the Company, recorded a provision of $84,000 on securities available for sale and $178,000 on securities held to maturity.

Accrued interest receivable on securities is reported as a component of accrued interest receivable on the consolidated balance sheet and totaled $8.7 million and $5.3 million at December 31, 2022 and December 31, 2020, respectively. The Company made the election to exclude accrued interest receivable from the estimate of credit losses on securities.

Allowance for Credit Losses - Off-Balance-Sheet Exposures

The allowance for credit losses on off-balance-sheet exposures is reported in other liabilities in the Consolidated Balance Sheets. The liability represents an estimate of expected credit losses arising from off balance sheet exposures such as letters of credit, guarantees and unfunded loan commitments. The process for measuring lifetime expected credit losses on these exposures is consistent with that for loans as discussed above, but is subject to an additional estimate reflecting the likelihood that funding will occur. No liability is recognized for off balance sheet credit exposures that are unconditionally cancellable by the Company. Adjustments to the liability are reported as a component of provision for credit losses.

At December 31, 2022 and 2021, the balance of the allowance for credit losses for off-balance-sheet exposures was $3.0 million and $2.3 million, respectively. The Company recorded a provision on off-balance-sheet exposures of $673,000 for the year ended December 31, 2022 and a benefit for credit losses on off-balance-sheet exposures of $243,000 for the year ended December 31, 2021.

Note 7 - Premises and Equipment

(in thousands)	Estimated Useful Lives	December 31, 2022	December 31, 2021
Land	Indefinite	$ 13,777	$ 9,444
Buildings and building improvements	10 to 50 years	49,626	42,115
Leasehold improvements	10 to 25 years	15,898	13,976
Furniture, fixtures and equipment	2 to 30 years	33,976	32,569
		113,277	98,104
Less accumulated depreciation and amortization		57,848	52,188
		$ 55,429	$ 45,916

Depreciation expense was $7.5 million, $6.8 million and $6.5 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Note 8 – Leases

The Company leases certain premises and equipment under operating leases. Portions of certain properties are subleased for terms extending through 2027. At December 31, 2022, the Company had lease liabilities totaling $21.4 million and right-of-use assets totaling $20.1 million related to these leases. At December 31, 2021, the Company had lease liabilities totaling $16.5 million and right-of-use assets totaling $15.2 million. 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 the year ended December 31, 2022, the weighted average remaining lease term for operating leases was 8.23 years and the weighted average discount rate used in the measurement of operating lease liabilities was 3.13%. For the year ended December 31, 2021, the weighted average remaining lease term for operating leases was 9.16 years and the weighted average discount rate used in the measurement of operating lease liabilities was 3.41%.

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)	2022	2021	2020
Operating lease cost	$ 4,930	$ 3,154	$ 3,312
Short-term lease cost	18	—	—
Variable lease cost	62	67	90
Sublease income	(106)	(121)	(122)
Net lease cost	$ 4,904	$ 3,100	$ 3,280

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

(in thousands)	2022	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$ 4,160	$ 2,757	$ 2,790
Right-of-use asset obtained in exchange for new operating lease liabilities	1,158	717	1,159

There were no sale and leaseback transactions, leveraged leases or lease transactions with related parties during the year ended December 31, 2022 and 2021. At December 31, 2022 and 2021, 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, 2022 is as follows:

(in thousands)	
Within one year	$ 4,866
After one year but within three years	7,782
After three years but within five years	4,789
After 5 years	7,239
Total undiscounted cash flows	24,676
Discount on cash flows	(3,227)
Total lease liability	$ 21,449

Note 9 - Deposits

The following table sets forth the details of total deposits.

(dollars in thousands)	December 31, 2022		December 31, 2021	
	Balance	% of Total	Balance	% of Total
Noninterest-bearing demand	$ 2,113,289	24.7 %	$ 1,732,452	24.9 %
Interest-bearing checking	3,079,249	35.9 %	2,219,658	31.9 %
Money market	1,192,353	13.9 %	1,577,385	22.6 %
Savings	974,403	11.4 %	677,101	9.7 %
Certificates of deposit $250 thousand and under	901,505	10.5 %	623,393	8.9 %
Certificates of deposit over $250 thousand	306,672	3.6 %	135,834	2.0 %
Total deposits	$ 8,567,471	100.0 %	$ 6,965,823	100.0 %

At December 31, 2022, the schedule of maturities of certificates of deposit is as follows:

(in thousands)		
2023	$	909,914
2024		238,086
2025		46,783
2026		11,745
2027		1,649
Total	$	1,208,177

At December 31, 2022 and 2021, certificates of deposit obtained through brokers totaled $33.1 million and $114.3 million, respectively.

Interest expense on deposits is as follows:

(in thousands)		2022		2021		2020
Checking accounts	$	21,899	$	4,591	$	9,095
Money market accounts		11,084		6,226		8,301
Savings		2,410		334		325
Certificates of deposit		8,860		5,642		14,338
Total	$	44,253	$	16,793	$	32,059

Note 10 - Debt

Overnight and Short-Term Borrowings

At December 31, 2022, overnight and short-term borrowings from FHLB totaled $700.0 million and at December 31, 2021, there were no overnight and short-term borrowings. Lakeland may borrow from the FHLB up to the amount of collateral pledged. In addition, Lakeland had no overnight and short-term borrowings from correspondent banks at December 31, 2022 or December 31, 2021. At December 31, 2022, Lakeland had overnight and short-term federal funds lines available to borrow up to $250.0 million from correspondent banks. Lakeland may also borrow from the discount window of the Federal Reserve Bank of New York based on the fair value of collateral pledged. Lakeland had no borrowings with the Federal Reserve Bank of New York as of December 31, 2022 or 2021.

Other short-term borrowings at December 31, 2022 and 2021 consisted of short-term securities sold under agreements to repurchase totaling $28.8 million and $106.5 million, respectively. Securities underlying the agreements were under Lakeland's control. At December 31, 2022, the Company had $25.6 million in mortgage-backed securities and $13.8 million in collateralized mortgage obligations pledged for its short-term securities sold under agreements to repurchase.

FHLB Advances

Advances from the FHLB totaled $25.0 million at both December 31, 2022 and December 31, 2021, with a weighted average interest rate of 0.77% and maturity in 2025. The advance was collateralized by first mortgage loans and has prepayment penalties. There were no FHLB advance prepayments in 2022 or 2021.

Subordinated Debentures

On January 6, 2022, the Company acquired $18.0 million of fixed to floating rate subordinated notes in connection with the 1st Constitution acquisition with a fair value of $14.7 million. In May 2006, 1st Constitution established 1st Constitution Capital Trust II ("Trust II"), a Delaware business trust and wholly-owned subsidiary of 1st Constitution, for the sole purpose of issuing $18.0 million of trust preferred securities (the "Capital Securities"). Trust II utilized the $18.0 million in proceeds, along with $557,000 invested in Trust II by 1st Constitution to purchase $18.6 million of floating rate junior subordinated debentures issued by 1st Constitution and due to mature on June 15, 2036. The subordinated debentures were dated June 15, 2006 and pay interest at a rate of LIBOR plus a spread of 165 basis points which resets quarterly until maturity or earlier redemption. The Capital Securities were issued in connection with a pooled offering involving approximately 50 other financial institution holding companies. All of the Capital Securities were sold to a single pooling vehicle. The floating rate junior subordinated debentures are the only asset of Trust II and have terms that mirrored the Capital Securities. These debentures are redeemable in whole or in part prior to maturity. Trust II is obligated to distribute all proceeds of a redemption of these debentures, whether voluntary or upon maturity, to holders of the Capital Securities. The Company's obligation with respect to the Capital Securities and the debentures, when taken together, provided a full and unconditional guarantee on a subordinated basis by Lakeland as successor to 1st Constitution of the obligations of Trust II to pay amounts when due on the Capital Securities. Interest payments on the floating rate junior subordinated debentures flow through Trust II to the pooling vehicle.

The Company completed an offering of $150.0 million of fixed to floating rate subordinated notes on September 15, 2021, due on September 15, 2031. The notes bear interest at a rate of 2.875% until September 15, 2026, and will then reset quarterly to the then current Benchmark rate, which is expected to be the three-month term Secured Overnight Financing Rate ("SOFR") plus a spread of 220 basis points. The debt is included in Tier 2 capital for the Company. Debt issuance costs totaled $2.3 million and are being amortized to maturity. Subordinated debt is presented net of issuance costs on the consolidated balance sheets.

On January 4, 2019, the Company acquired subordinated notes in connection with the Highlands acquisition. Highlands issued $5.0 million of fixed rate notes in May 2014 bearing an interest 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. The Company redeemed both issuances in 2021.

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 paid interest at a rate of 5.125% per annum until September 30, 2021 when they were to 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 was included in Tier 2 capital for the Company. Debt issuance costs totaled $1.5 million and were being amortized to maturity. On September 30, 2021, the Company redeemed this issuance which resulted in an acceleration of unamortized debt issuance costs of $831,000.

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 five 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 five 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 five-year cash flow swaps totaling $30.0 million in order to hedge the variable cash outflows associated with the junior subordinated debentures issued to Lakeland Bancorp Capital Trust II and Lakeland Bancorp Capital Trust IV. Both of these swaps matured in 2021. For more information please see Note 20 – Derivatives.

Note 11 - Stockholders' Equity

On October 22, 2019, the Board of Directors of Lakeland approved a 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. 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, 2022, the Company had repurchased 131,035 shares.

Note 12 - Income Taxes

The components of income taxes are as follows:

(in thousands)	Years Ended December 31, 2022	2021	2020
Current tax provision	$ 33,876	$ 26,872	$ 24,022
Deferred tax expense (benefit)	2,747	5,422	(6,763)
Total provision for income taxes	$ 36,623	$ 32,294	$ 17,259

The income tax provision reconciled to the income taxes that would have been computed at the statutory federal rate of 21% as follows.

(in thousands)	Years Ended December 31, 2022	2021	2020
Federal income tax, at statutory rates	$ 30,238	$ 26,740	$ 15,703
Increase (deduction) in taxes resulting from:			
Tax-exempt income	(2,085)	(1,114)	(961)
State income tax, net of federal income tax effect	6,942	6,176	2,178
Excess tax (benefits) expense from employee share-based payments	(69)	89	132
Non-deductible expenses	1,524	—	—
Other, net	73	403	207
Provision for income taxes	$ 36,623	$ 32,294	$ 17,259

The net deferred tax asset consisted of the following.

(in thousands)	December 31, 2022	2021
Deferred tax assets:		
Allowance for credit losses	$ 21,198	$ 17,837
Stock based compensation plans	1,506	1,446
Purchase accounting fair market value adjustments	1,111	1,487
Non-accrued interest	470	504
Deferred compensation	3,371	2,796
Loss on equity securities	511	136
Federal net operating loss carryforward	3,264	303
State tax net operating loss carryforward	1,017	—
Unrealized loss on investment securities	26,756	—
Other, net	531	514
Gross deferred tax assets	59,735	25,023
Deferred tax liabilities:		
Core deposit intangible from acquired companies	2,595	705
Undistributed income from subsidiary not consolidated for tax return purposes (REIT)	1,097	903
Deferred loan costs	3,496	2,150
Depreciation and amortization	690	1,660
Prepaid expenses	970	824
Unrealized gain on investment securities	—	1,228
Other	1,108	235
Gross deferred tax liabilities	9,956	7,705
Net deferred tax assets	$ 49,779	$ 17,318

The Company recorded net deferred tax assets of $7.2 million as a result of the acquisition of 1st Constitution.

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, 2022 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 consolidated financial statements. The Company had no unrecognized tax benefits or related interest or penalties at December 31, 2022 or 2021.

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 2019 or to state and local examinations by tax authorities for the years before 2019.

Note 13 - Benefit Plans

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 2022, 2021 and 2020 totaled $2.2 million, $1.6 million and $1.5 million, respectively.

Supplemental Executive Retirement Plans

In 2003, the Company entered into a non-qualified Supplemental Executive Retirement Plan ("SERP") agreement with its former Chief Executive Officer ("CEO") that provides annual retirement benefits of $150,000 a year for 15 years when the former CEO reached the age of 65. The 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 former 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. Both former Regional Presidents are receiving the annual retirement benefits pursuant to the plans.

Somerset Hills Bank, acquired by the Company in 2013, entered into a SERP with its former CEO and its Chief Financial Officer ("CFO") 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 CEO and the beneficiary of the CFO are currently being paid out under the plan.

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 2022, the Company recorded a credit to compensation expense of $262,000 and in 2021 and 2020, the Company recorded compensation expense of $163,000 and $411,000, respectively, for these plans. The accrued liability for these plans was $3.2 million and $3.8 million for the years ended December 31, 2022 and 2021, 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 2022, 2021 and 2020 was $450,000, $331,000 and $339,000, respectively, and the accrued liability at December 31, 2022 and 2021 was $2.4 million and $1.9 million, 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 their base salaries and bonuses to a deferral account that 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 $346,000, $183,000 and $162,000 in 2022, 2021 and 2020, respectively, and had a liability recorded of $4.5 million and $3.2 million at December 31, 2022 and 2021, respectively.

Directors Retirement Plan

The Company maintains an Amended and Restated Directors' Deferred Compensation Plan, which applies to directors appointed to the Company's Board of Directors prior to January 1, 2009. The non-qualified, defined benefit plan provides participants, 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. The plan is unfunded and holds no assets.

At December 31, 2022 and 2021, the directors' deferred compensation plan had a recorded liability of $627,000 and $647,000, respectively. The was no balance recognized in accumulated other comprehensive income for pension items at December 31, 2022 or 2021.

The net periodic plan cost included the following components.

	Years Ended December 31,		
(in thousands)	2022	2021	2020
Service cost	$ —	$ 22	$ 18
Interest cost	—	16	17
	$ —	$ 38	$ 35

A discount rate of 4.91%, 2.49% and 2.21% was assumed in the plan valuation for 2022, 2021 and 2020, 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 Company expects its contribution to the directors' retirement plan to be $57,000 in 2023.

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)	
2023	$ 38
2024	38
2025	37
2026	27
2027	55
2028-2032	188

Note 14 - Stock-Based Compensation

The Company's 2018 Omnibus Equity Incentive Plan (the "Plan") authorizes the granting of incentive stock options, supplemental stock options, stock appreciation rights, restricted shares, restricted stock units ("RSUs"), 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 authorized the issuance of up to 2.0 million shares of Company common stock.

Restricted Stock

The following is a summary of the Company's restricted stock activity during the year ended December 31, 2022.

	Number of Shares	Weighted Average Price
Outstanding, beginning of year	16,035	$ 13.72
Granted	17,722	19.74
Vested	(16,035)	13.72
Outstanding, end of year	17,722	$ 19.74

In 2022, the Company granted 17,722 shares of restricted stock to non-employee directors at a grant date fair value of $19.74 per share under the Company's 2018 Omnibus Equity Incentive Plan. The restricted stock vests one year from the date it was granted. Compensation expense on this restricted stock is expected to be $350,000 over a one year period. In 2021, the Company granted 16,028 shares of restricted stock to non-employee directors at a grant date fair value of $13.72 per share under the Company's 2018 Omnibus Equity Incentive Plan. These shares vested over a one year period and totaled $220,000 in compensation expense. In 2020, the Company granted 23,852 shares of restricted stock to non-employee directors at a grant date fair value of $14.78 per share under the Company's 2018 Omnibus Equity Incentive Plan. These shares vested over a one year period and totaled $353,000 in compensation expense.

The total fair value of the restricted stock vested during the year ended December 31, 2022 was approximately $220,000. Compensation expense recognized for restricted stock was $350,000, $330,000 and $242,000 in 2022, 2021 and 2020, respectively. There was no unrecognized compensation expense related to restricted stock grants as of December 31, 2022.

Restricted Stock Units

The following is a summary of the Company's RSU activity during the year ended December 31, 2022.

	Number of RSUs	Weighted Average Price
Outstanding, beginning of year	591,342	$ 16.61
Granted	316,419	17.98
Vested	(313,570)	16.85
Forfeited	(4,771)	17.52
Outstanding, end of year	589,420	$ 17.21

In 2022, the Company granted 316,419 RSUs at a weighted average grant date fair value of $17.98 per share under the Company's 2018 Omnibus Equity Incentive Plan. The RSUs 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 2022 is expected to average approximately $1.9 million per year over a three year period.

In 2021, the Company granted 376,966 RSUs at a weighted average grant date fair value of $17.21 per share under the Company's 2018 Omnibus Equity Incentive Plan. These RSUs vest within a range of two to three years, with compensation expense expected to average approximately $2.2 million per year over a three year period. In 2020, the Company granted 176,869 RSUs at a weighted average grant date fair value of $15.34 per share under the Company's 2018 Omnibus Equity Incentive Plan. Compensation expense on these RSUs was expected to average $904,000 per year over a three year period.

Compensation expense for restricted stock units totaled $5.4 million, $3.7 million and $2.4 million in 2022, 2021 and 2020, respectively. In 2022, the Company accelerated RSU vesting for several executives and recognized $772,000 in compensation expense. There was approximately $5.2 million in unrecognized compensation expense related to RSUs as of December 31, 2022, which is expected to be recognized over a period of 1.16 years.

Stock Options

At December 31, 2022 and December 31, 2021, there were no stock options outstanding under the Plan. There were no stock option grants during 2022 or 2021. There were no stock options exercised during 2022, while 2,764 stock options were exercised during 2021 with an intrinsic value of $27,000 and resulted in $19,000 in cash receipts. The aggregate intrinsic value represents the total pre-tax intrinsic value, which is the difference between the Company's closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options. As of December 31, 2022, there was no unrecognized compensation expense related to unvested stock options and there was no compensation expense recognized for stock options for 2022, 2021 and 2020.

For 2022, excess tax benefits on stock based compensation were $69,000, while excess tax deficiencies were $89,000 and $132,000 for 2021 and 2020, respectively.

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, 2022, 2021 and 2020.

(in thousands)	2022	2021	2020
Deposit-Related Fees and Charges			
Debit card interchange income	$ 6,686	$ 6,213	$ 5,431
Overdraft charges	3,167	2,476	2,582
ATM service charges	796	660	522
Demand deposit fees and charges	255	446	540
Savings service charges	81	61	73
Total deposit-related fees and charges	10,985	9,856	9,148
Commissions and Fees			
Loan fees	2,836	1,858	1,227
Wire transfer charges	1,944	1,533	1,412
Investment services income	2,257	1,837	1,630
Merchant fees	1,163	984	833
Commissions from sales of checks	350	301	292
Safe deposit income	360	320	345
Other income	176	189	181
Total commissions and fees	9,086	7,022	5,920
Gains on Sale of Loans	2,765	2,264	3,322
Other Income			
Gains on customer swap transactions	1,576	634	4,719
Title insurance income	58	109	177
Other income	1,416	404	438
Total other income	3,050	1,147	5,334
Revenue not from contracts with customers	2,213	2,072	3,386
Total Noninterest Income	$ 28,099	$ 22,361	$ 27,110
Timing of Revenue Recognition			
Products and services transferred at a point in time	$ 25,886	$ 20,266	$ 23,649
Products and services transferred over time	—	23	75
Revenue not from contracts with customers	2,213	2,072	3,386
Total Noninterest Income	$ 28,099	$ 22,361	$ 27,110

Note 16 - Other Operating Expenses

The following table presents the major components of other operating expenses for the periods indicated.

(in thousands)	2022	2021	2020
Consulting and advisory board fees	$ 4,535	$ 2,856	$ 3,937
ATM and debit card expense	2,754	2,528	2,331
Telecommunications expense	2,210	2,099	1,875
Marketing expense	2,523	1,642	1,253
Core deposit intangible amortization	2,351	868	1,025
Other real estate owned and other repossessed assets expense	1	—	53
Long-term debt prepayment penalties	—	—	4,133
Long-term debt extinguishment costs	—	831	—
Other operating expenses	17,217	12,994	12,763
Total other operating expenses	$ 31,591	$ 23,818	$ 27,370

Note 17 - Commitments and Contingencies

Litigation

Litigation related to the merger with Provident has been filed against the Company. The complaints in these actions are brought by alleged Lakeland shareholders and assert claims against the Company and the members of its board of directors and allege, among other things, that the defendants caused a materially incomplete and misleading registration statement relating to the proposed merger to be filed with the SEC in violation of Section 14(a) and Section 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 14a-9 promulgated thereunder. The Company disputes and believes it has meritorious defenses against these claims and plans to vigorously defend itself, however, the outcome of any litigation is uncertain.

There are no pending legal proceedings involving the Company or Lakeland other than those related to the merger with Provident or 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.

Department of Justice Settlement

On September 28, 2022, Lakeland Bank announced it had entered into a settlement with the U.S. Department of Justice ("DOJ") to resolve allegations that the Bank had violated fair lending laws in the Newark, New Jersey Metro Division.

For the five-year period beginning September 28, 2022, the Bank will provide $12 million in loan subsidies in Majority Black and Hispanic Census Tracts ("MBHCTs") within Essex, Morris, Somerset, Sussex and Union Counties in New Jersey (the "Newark Lending Area"), $750,000 in additional marketing of mortgage lending services and products in the Newark Lending Area, $400,000 for community development partnerships to serve these MBHCTs in the Newark Lending Area and establish two branches within the MBHCTs, including one in Newark, New Jersey and one in the Newark Lending Area. Lakeland will also conduct twenty outreach events for real estate brokers and agents, developers and public or private entities engaged in residential real estate-related business and assign four additional loan officers to support these commitments.

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, 2022 and 2021, Lakeland had $1.55 billion and $1.14 billion, respectively, 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, 2022 and 2021 was $20.1 million and $19.5 million, respectively, and they expire through 2027. The fair value of Lakeland's liability for financial standby letters of credit was insignificant at December 31, 2022.

At December 31, 2022, there were no commitments to lend additional funds to borrowers whose terms have been modified in troubled debt restructurings. There were $39,000 such commitments to lend additional funds at December 31, 2021.

Note 18 - 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 (loss) for the periods presented.

(in thousands)	Year Ended December 31, 2022 Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
Net unrealized losses on securities available for sale	$ (105,262)	$ 27,788	$ (77,474)
Amortization of gain on debt securities reclassified to held to maturity from available for sale	(747)	196	(551)
Other comprehensive loss	$ (106,009)	$ 27,984	$ (78,025)

(in thousands)	Year Ended December 31, 2021 Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
Unrealized holding losses on securities available for sale arising during the period	$ (15,117)	$ 4,466	$ (10,651)
Reclassification adjustment for securities gains included in net income	(9)	3	(6)
Unrealized holding losses on securities available for sale	(15,126)	4,469	(10,657)
Net gain on securities reclassified from available for sale to held to maturity	3,814	(1,030)	2,784
Amortization of gain on debt securities reclassified to held to maturity from available for sale	(383)	118	(265)
Unrealized gains on derivatives	143	(168)	(25)
Change in pension liability, net	43	(13)	30
Other comprehensive loss	$ (11,509)	$ 3,376	$ (8,133)

(in thousands)	Year Ended December 31, 2020 Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
Unrealized holding gains on securities available for sale arising during the period	$ 14,049	$ (3,711)	$ 10,338
Reclassification adjustment for securities gains included in net income	(1,213)	341	(872)
Unrealized holding gains on securities available for sale	12,836	(3,370)	9,466
Unrealized losses on derivatives	(413)	121	(292)
Change in pension liability, net	(36)	11	(25)
Other comprehensive income	$ 12,387	$ (3,238)	$ 9,149

(in thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Amortization of Gain on Debt Securities Reclassified to Held to Maturity	Unrealized Gains (Losses) on Derivatives	Pension Items	Total
Balance at January 1, 2020	$ 1,936	$ —	$ 317	$ (5)	$ 2,248
Other comprehensive income (loss) before classifications	10,338	—	(292)	(25)	10,021
Amounts reclassified from accumulated other comprehensive income	(872)	—	—	—	(872)
Net current period other comprehensive income (loss)	9,466	—	(292)	(25)	9,149
Balance at December 31, 2020	$ 11,402	$ —	$ 25	$ (30)	$ 11,397
Net unrealized gain on securities reclassified from available for sale to held to maturity	(2,784)	2,784	—	—	—
Other comprehensive income (loss) before reclassifications	(7,867)	(265)	(25)	30	(8,127)
Amounts reclassified from accumulated other comprehensive income	(6)	—	—	—	(6)
Net current period other comprehensive income (loss)	(7,873)	(265)	(25)	30	(8,133)
Balance at December 31, 2021	$ 745	$ 2,519	$ —	$ —	$ 3,264
Net current period other comprehensive (loss) income	(77,474)	(551)	—	—	(78,025)
Balance at December 31, 2022	$ (76,729)	$ 1,968	$ —	$ —	$ (74,761)

Note 19 - Fair Value Measurement and Fair Value of Financial Instruments

Fair Value Measurement

Accounting standards related to fair value measurements define fair value, provide a framework for measuring fair value and establish related disclosure requirements. Fair value is broadly 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 three levels of fair value hierarchy are as follows:

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; quoted prices for identical or similar assets or liabilities in markets that are less 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 investment securities available for sale, equity 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 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 value of the Community Development funds that are guaranteed by the SBA are valued at cost because there are minimal changes to fair value. The fair value of the remaining funds are priced on a daily basis based on the funds' net asset value.

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).

Recurring Fair Value Measurements

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, 2022 and 2021, 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, 2022	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	$ 162,438	$ 193,201	$ —	$ 355,639
Mortgage-backed securities, residential	—	310,613	—	310,613
Collateralized mortgage obligations, residential	—	154,058	—	154,058
Mortgage-backed securities, multifamily	—	785	—	785
Collateralized mortgage obligations, multifamily	—	46,333	—	46,333
Asset-backed securities	—	52,395	—	52,395
Obligations of states and political subdivisions	—	21,122	—	21,122
Corporate debt securities	—	113,367	—	113,367
Total securities available for sale	162,438	891,874	—	1,054,312
Equity securities, at fair value	—	17,283	—	17,283
Derivative assets	—	97,848	—	97,848
Total Assets	$ 162,438	$ 1,007,005	$ —	$ 1,169,443
Liabilities:				
Derivative liabilities	$ —	$ 97,848	$ —	$ 97,848
Total Liabilities	$ —	$ 97,848	$ —	$ 97,848

December 31, 2021	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	$ 104,861	$ 98,526	$ —	$ 203,387
Mortgage-backed securities	—	237,975	—	237,975
Collateralized mortgage obligations	—	191,291	—	191,291
Mortgage-backed securities, multifamily	—	1,741	—	1,741
Collateralized mortgage obligations, multifamily	—	32,519	—	32,519
Asset-backed securities	—	52,584	—	52,584
Corporate debt securities	—	50,459	—	50,459
Total securities available for sale	104,861	665,095	—	769,956
Equity securities, at fair value	—	17,368	—	17,368
Derivative assets	—	43,799	—	43,799
Total Assets	$ 104,861	$ 726,262	$ —	$ 831,123
Liabilities:				
Derivative liabilities	$ —	$ 43,799	$ —	$ 43,799
Total Liabilities	$ —	$ 43,799	$ —	$ 43,799

Non-Recurring Fair Value Measurements

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 value. Fair value is generally determined by the value of purchase commitments.

Loans that do not have similar risk characteristics to the segments reported must be individually evaluated to determine an appropriate allowance. Management has identified criteria and procedures for identifying whether a loan should be individually evaluated for calculation of expected credit losses. If a loan is identified as meeting any of the criteria, it is deemed to have risk characteristics that are unique and will be separated from a pool. Those loans that are considered to have unique risk characteristics are then subjected to an individual allowance evaluation using either the fair value of the collateral, less estimated costs to sell, if collateral-dependent or the discounted cash flow method.

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 individually evaluated valuations. 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 individually evaluated loans, OREO and other repossessed assets.

The following table summarized the Company's financial assets that are measured at fair value 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, 2022	(Level 1)	(Level 2)	(Level 3)	Total Fair Value
(in thousands)				
Assets:				
Individually evaluated loans	$ —	$ —	$ 4,489	$ 4,489

December 31, 2021	(Level 1)	(Level 2)	(Level 3)	Total Fair Value
(in thousands)				
Assets:				
Individually evaluated loans	$ —	$ —	$ 7,113	$ 7,113

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, 2022 and December 31, 2021 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.

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 summarized the carrying values, fair values and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2022 and December 31, 2021.

December 31, 2022	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					
U.S. Treasury and U.S. government agencies	$ 11,099	$ 10,385	$ —	$ 10,385	$ —
Mortgage-backed securities, residential	360,683	302,612	—	302,612	—
Collateralized mortgage obligations, residential	13,026	10,456	—	10,456	—
Mortgage-backed securities, multifamily	5,094	4,347	—	4,347	—
Obligations of states and political subdivisions	530,506	430,108	—	428,635	1,473
Corporate bonds	2,900	2,547	—	2,547	—
Total investment securities held to maturity, net	923,308	760,455	—	758,982	1,473
Federal Home Loan and other membership bank stock	42,483	42,483	—	42,483	—
Loans, net	7,795,786	7,561,997	—	—	7,561,997
Financial Liabilities:					
Certificates of deposit	1,208,177	1,174,230	—	1,174,230	—
Other borrowings	25,000	23,001	—	23,001	—
Subordinated debentures	194,264	160,933	—	—	160,933

December 31, 2021	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					
U.S. Treasury and U.S. government agencies	$ 18,672	$ 18,965	$ —	$ 18,965	$ —
Mortgage-backed securities, residential	370,247	364,976	—	364,976	—
Collateralized mortgage obligations, residential	13,921	14,089	—	14,089	—
Mortgage-backed securities, multifamily	2,710	2,734	—	2,734	—
Obligations of states and political subdivisions	416,566	411,576	—	410,744	832
Corporate bonds	2,840	2,871	—	2,871	—
Total investment securities held to maturity, net	824,956	815,211	—	814,379	832
Federal Home Loan and other membership bank stock	9,049	9,049	—	9,049	—
Loans, net	5,918,101	5,900,876	—	—	5,900,876
Financial Liabilities:					
Certificates of deposit	759,227	753,483	—	753,483	—
Other borrowings	25,000	24,604	—	24,604	—
Subordinated debentures	179,043	175,243	—	—	175,243

Note 20 - Derivatives

Lakeland is a party to interest rate derivatives that are not designated as hedging instruments. 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 these interest rate swaps 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, 2022 Lakeland had no securities pledged for collateral on its interest rate swaps and at December 31, 2021, had $55.1 million 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. For more information, see Note 10 to the Company's consolidated financial statements. The notional value of these hedges was $30.0 million. The Company's objective in using the cash flow hedge was 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 was 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. On June 30, 2021, $20.0 million in notional value of the swaps matured and on August 1, 2021, the remaining $10.0 million matured. The Company did not enter into any hedges in 2022. During the year ended December 31, 2022, the Company did not record any hedge ineffectiveness. The Company recognized no accumulated other comprehensive expense that was reclassified into interest expense during 2022 and recognized $142,000 of accumulated other comprehensive expense that was reclassified into interest expense during 2021.

The following tables present summary information regarding these derivatives for the periods presented (dollars in thousands).

December 31, 2022	Notional Amount	Average Maturity (Years)	Weighted Average Rate Fixed	Weighted Average Variable Rate	Fair Value
Classified in Other Assets:					
Third party interest rate swaps	$ 918,758	7.5	3.70 %	1 Mo. SOFR + 2.00	$ 94,800
Third party interest rate swaps	$ 48,497	1.5	3.40 %	1 Mo. LIBOR + 2.52	$ 1,841
Customer interest rate swaps	51,864	8.5	5.60 %	1 Mo. SOFR + 1.95	1,207
Classified in Other Liabilities:					
Customer interest rate swaps	$ 918,758	7.5	3.70 %	1 Mo. SOFR + 2.00	$ (94,800)
Customer interest rate swaps	$ 48,497	1.5	3.40 %	1 Mo. LIBOR + 2.52	$ (1,841)
Third party interest rate swaps	51,864	8.5	5.60 %	1 Mo. SOFR + 1.95	(1,207)

December 31, 2021	Notional Amount	Average Maturity (Years)	Weighted Average Rate Fixed	Weighted Average Variable Rate	Fair Value
Classified in Other Assets:					
Third Party interest rate swaps	$ 326,941	7.7	3.14 %	1 Mo. LIBOR + 2.32	$ 9,847
Customer interest rate swaps	607,688	8.2	3.97 %	1 Mo. LIBOR + 1.87	33,952
Classified in Other Liabilities:					
Customer interest rate swaps	$ 326,941	7.7	3.14 %	1 Mo. LIBOR + 2.32	$ (9,847)
Third party interest rate swaps	607,688	8.2	3.97 %	1 Mo. LIBOR + 1.87	(33,952)

Note 21 - 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 $925.7 million was available for payment of dividends from Lakeland to the Company as of December 31, 2022.

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, 2022, that the Company and Lakeland met all capital adequacy requirements to which they are subject.

As of December 31, 2022, 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, 2022 and 2021, 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, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Company	$ 1,167,429	13.83 %	≥ $ 886,420	≥ 10.50 %	N/A	N/A
Lakeland	1,109,089	13.15 %	885,667	10.50 %	≥ $ 843,492	≥ 10.00 %
Tier 1 capital (to risk-weighted assets)						
Company	$ 948,970	11.24 %	≥ $ 717,578	≥ 8.50 %	N/A	N/A
Lakeland	1,038,661	12.31 %	716,968	8.50 %	≥ $ 674,794	≥ 8.00 %
Common equity Tier 1 capital (to risk-weighted assets)						
Company	$ 904,532	10.71 %	≥ $ 590,946	≥ 7.00 %	N/A	N/A
Lakeland	1,038,661	12.31 %	590,444	7.00 %	≥ $ 548,270	≥ 6.50 %
Tier 1 capital (to average assets)						
Company	$ 948,970	9.16 %	≥ $ 414,485	≥ 4.00 %	N/A	N/A
Lakeland	1,038,661	10.03 %	414,212	4.00 %	≥ $ 517,765	≥ 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, 2021	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Company	$ 903,415	14.48 %	≥ $ 654,978	≥ 10.50 %	N/A	N/A
Lakeland	852,339	13.67 %	654,692	10.50 %	≥ $ 623,516	≥ 10.00 %
Tier 1 capital (to risk-weighted assets)						
Company	$ 695,634	11.15 %	≥ $ 530,220	≥ 8.50 %	N/A	N/A
Lakeland	792,363	12.71 %	529,989	8.50 %	≥ $ 498,813	≥ 8.00 %
Common equity Tier 1 capital (to risk-weighted assets)						
Company	$ 665,634	10.67 %	≥ $ 436,652	≥ 7.00 %	N/A	N/A
Lakeland	792,363	12.71 %	436,461	7.00 %	≥ $ 405,285	≥ 6.50 %
Tier 1 capital (to average assets)						
Company	$ 695,634	8.51 %	≥ $ 326,813	≥ 4.00 %	N/A	N/A
Lakeland	792,363	9.70 %	326,734	4.00 %	≥ $ 408,418	≥ 5.00 %

Note 22 - Goodwill and Other Intangible Assets

The Company reported goodwill of $271.8 million and $156.3 million at December 31, 2022 and December 31, 2021, respectively. The Company recorded $115.6 million in goodwill from the 1st Constitution merger in January 2022 as further described in Note 2 of the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K. The Company reviews its goodwill and intangible assets annually, on November 30, or more frequently if conditions warrant, for impairment. In testing goodwill for impairment, the Company compares the estimated fair value of its reporting unit to its carrying amount, including goodwill. The Company has determined that it has one reporting unit. During the year ended December 31, 2022, there were no triggering events that would more likely than not reduce the fair value of our one reporting unit below its carrying amount. There was no impairment of goodwill recognized during the years ended December 31, 2022 and 2021.

Core deposit intangible was $9.1 million on December 31, 2022 compared to $2.4 million on December 31, 2021. In 2022, 2021 and 2020, amortization of core deposit intangible totaled $2.4 million, $868,000 and $1.0 million, respectively. The estimated future amortization expense for each of the succeeding five years ended December 31 is as follows:

(in thousands)	
2023	$ 2,029
2024	1,737
2025	1,465
2026	1,193
2027	955

Note 23 - Condensed Financial Information - Parent Company Only

Condensed Balance Sheets

(in thousands)	December 31, 2022	December 31, 2021
Assets		
Cash and due from banks	$ 47,362	$ 40,228
Investment in subsidiaries	1,244,037	954,506
Other assets	13,422	12,639
Total Assets	$ 1,304,821	$ 1,007,373
Liabilities and Stockholders' Equity		
Other liabilities	$ 1,970	$ 1,316
Subordinated debentures	194,264	179,043
Total stockholders' equity	1,108,587	827,014
Total Liabilities and Stockholders' Equity	$ 1,304,821	$ 1,007,373

Condensed Statements of Income

(in thousands)	Years Ended December 31, 2022	2021	2020
Income			
Dividends from subsidiaries	$ 52,988	$ 50,648	$ 29,961
Other income (loss)	79	34	(486)
Total Income	53,067	50,682	29,475
Expense			
Interest on subordinated debentures	6,825	5,419	5,968
Noninterest expenses	542	1,498	549
Total Expense	7,367	6,917	6,517
Income before benefit for income taxes	45,700	43,765	22,958
Income taxes benefit	(1,530)	(1,445)	(1,645)
Income before equity in undistributed income of subsidiaries	47,230	45,210	24,603
Equity in undistributed income of subsidiaries	60,139	49,831	32,915
Net Income Available to Common Shareholders	$ 107,369	$ 95,041	$ 57,518

Condensed Statements of Cash Flows

(in thousands)	Years Ended December 31, 2022	2021	2020
Cash Flows from Operating Activities			
Net income	$ 107,369	$ 95,041	$ 57,518
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Gain on sale of equity securities	—	—	(149)
Amortization of subordinated debt costs	487	547	37
Benefit for credit losses	—	—	(12)
Long-term debt extinguishment costs	—	831	—
Change in fair value of equity securities	—	—	786
Excess tax benefits (deficiency)	69	(89)	(132)
Increase in other assets	(1,571)	(1,443)	(1,462)
Increase in other liabilities	142	149	25
Equity in undistributed income of subsidiaries	(60,139)	(49,831)	(32,915)
Net cash provided by operating activities	46,357	45,205	23,696
Cash Flows from Investing Activities			
Net cash used in acquisition	67	—	—
Purchases of equity securities	—	—	(49)
Proceeds from maturity of held to maturity securities	—	—	1,000
Proceeds from sale of equity securities	—	—	1,148
Contribution to subsidiary	—	(65,000)	—
Net cash provided by (used in) investing activities	67	(65,000)	2,099
Cash Flows from Financing Activities			
Cash dividends paid on common stock	(37,334)	(27,119)	(25,457)
Proceeds from issuance of subordinated debt, net	—	147,738	—
Redemption of subordinated debentures, net	—	(88,330)	—
Purchase of treasury stock	—	—	(1,452)
Retirement of restricted stock	(1,956)	(651)	(501)
Exercise of stock options	—	19	—
Net cash (used in) provided by financing activities	(39,290)	31,657	(27,410)
Net increase (decrease) in cash and cash equivalents	7,134	11,862	(1,615)
Cash and cash equivalents, beginning of year	40,228	28,366	29,981
Cash and cash equivalents, end of year	$ 47,362	$ 40,228	$ 28,366

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, 2022, 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, 2022. 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, 2022, 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, 2022. Their report, dated February 28, 2023, 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, 2022 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, 2022, 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, 2022, 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, 2022 and 2021, 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, 2022, and the related notes (collectively, the consolidated financial statements), and our report dated February 28, 2023 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.

/s/ KPMG LLP

Short Hills, New Jersey

February 28, 2023

ITEM 9B – Other Information.

On February 27, 2023, Lakeland Bancorp, Inc. (the "Company"), its wholly owned subsidiary, Lakeland Bank (the "Bank"), and Thomas J. Shara, President and Chief Executive Officer of the Company and Bank, entered into an amendment (the "Amendment") to Mr. Shara's employment agreement dated as of April 2, 2008 and amended as of August 7, 2015 (the "Employment Agreement"). The Amendment extends the term of the Employment Agreement, which was set to expire on April 2, 2023, to April 2, 2024, provided that per the terms of Mr. Shara's Executive Vice Chairman Agreement with Provident Financial Services, Inc., dated as of September 26, 2022, to the Employment Agreement will terminate on the closing of the Merger Agreement, dated as of September 26, 2022, by and between Lakeland Bancorp, Inc., Provident Financial Services, Inc. and NL 239 Corp.

The foregoing description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the form of Amendment which is attached hereto as Exhibit 10.27 of this Annual Report on Form 10-K and is incorporated by reference herein.

ITEM 9C – Disclosures Regarding Foreign Jurisdictions that Prevent Inspections.

None.

PART III

ITEM 10 – Directors, Executive Officers and Corporate Governance.

The information required by this item will be provided within 120 days of December 31, 2022.

ITEM 11 - Executive Compensation.

The information required by this item will be provided within 120 days of December 31, 2022.

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

The information required by this item will be provided within 120 days of December 31, 2022.

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

The information required by this item will be provided within 120 days of December 31, 2022.

ITEM 14 - Principal Accounting Fees and Services.

Our independent registered public accounting firm is KPMG LLP, Short Hills, NJ, Auditor Firm ID is 185.

The information required by this item will be provided within 120 days of December 31, 2022.

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, 2022 and 2021.
- (ii) Consolidated Statements of Income for each of the three years in the period ended December 31, 2022.
- (iii) Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2022.
- (iv) Consolidated Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 2022.
- (v) Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2022.
- (vi) Notes to Consolidated Financial Statements.
- (vii) 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

2.1	Agreement and Plan of Merger, dated as of September 26, 2022, by and among Provident Financial Services, Inc., NC 239 Corp. and Lakeland Bancorp, Inc. is incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed with the SEC on September 27, 2022.
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 3.1 to Registrant's Current Report on Form 8-K filed with the SEC on April 9, 2020.
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 is incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2019
4.4	Indenture, dated as of September 15, 2021, 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 15, 2021.
4.5	First Supplemental Indenture, dated as of September 15, 2021, 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 15, 2021.
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+	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.
10.4+	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.
10.5+	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.
10.6+	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.
10.7+	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.
10.8+	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.
10.9+	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.
10.10+	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.

10.11+	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.
10.12+	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.
10.13+	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.
10.14+	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.
10.15+	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.
10.16+	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.
10.17+	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.
10.18+	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.
10.19+	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.
10.20+	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.
10.21+	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.
10.22+	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.
10.23	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.
10.24+	Amendatory Agreement, dated January 6, 2022, to the Change in Control Agreement by and among Lakeland Bancorp, Inc., and Ronald E. Schwarz, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on January 6, 2022.
10.25+	Amendatory Agreement, dated September 23, 2022, to the Change in Control Agreement by and among Lakeland Bancorp, Inc., and Ronald E. Schwarz is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on September 27, 2022.
10.26+	Amendatory Agreement dated September 23, 2022, to the Change in Control Agreement by and among Lakeland Bancorp, Inc., and John F. Rath is incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on September 27, 2022.
10.27+	Amendatory Agreement, dated February 27, 2023, to the Employment Agreement by and among Lakeland Bancorp, Inc., Lakeland Bank and Thomas J. Shara.
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:	February 28, 2023	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	February 28, 2023
/s/ Mary Ann Deacon* Mary Ann Deacon	Chairman	February 28, 2023
/s/ Brian M. Flynn* Brian M. Flynn	Director	February 28, 2023
/s/ Mark J. Fredericks* Mark J. Fredericks	Director	February 28, 2023
/s/ Brian Gragnolati* Brian Gragnolati	Director	February 28, 2023
/s/ James E. Hanson II* James E. Hanson II	Director	February 28, 2023
/s/ Janeth C. Hendershot* Janeth C. Hendershot	Director	February 28, 2023
/s/ Lawrence R. Inserra, Jr.* Lawrence R. Inserra, Jr.	Director	February 28, 2023
/s/ Robert F. Mangano* Robert F. Mangano	Director	February 28, 2023
/s/ Robert E. McCracken* Robert E. McCracken	Director	February 28, 2023
/s/ Robert B. Nicholson, III* Robert B. Nicholson, III	Director	February 28, 2023

Signature	Capacity	Date
/s/ Thomas J. Shara Thomas J. Shara	Director, President and Chief Executive Officer (Principal Executive Officer)	February 28, 2023
/s/ Thomas Splaine Thomas Splaine	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 28, 2023
*By: /s/ Thomas J. Shara Thomas J. Shara Attorney-in-Fact		February 28, 2023

<u>Exhibit 10.27</u>

AMENDATORY AGREEMENT
TO EMPLOYMENT AGREEMENT

This **AMENDATORY AGREEMENT** (the "Amendatory Agreement") is made and entered into as of the 27th day of February, 2023 by and among Lakeland Bancorp, Inc. ("Lakeland Bancorp"), Lakeland Bank ("Lakeland Bank" and collectively with Lakeland Bancorp, the "Employer") and Thomas J. Shara (the "Executive").

<u>WITNESSETH</u>:

WHEREAS, the Employer and the Executive are parties to an Employment Agreement, dated as of April 2, 2008, and amended as of August 7, 2015 (as amended, the "Agreement"); and

WHEREAS, the Agreement provides for a three year term that is automatically extended for an additional one year period on each April 2nd, unless either party provides written notice to the other party not to extend the term; provided further, that on or after the fifteenth (15th) anniversary of the Effective Date, or April 2, 2023, the term of the Agreement expires and if the Executive remains employed by the Employer, his employment will be on an at-will basis; and

WHEREAS, in light of the Merger Agreement between Lakeland Bancorp and Provident Financial Services, Inc. ("Provident") and NL 239 Corp. ("Merger Sub"), dated as of September 26, 2022 (the "Merger Agreement"), Merger Sub will be merged with and into Lakeland Bancorp and thereafter Lakeland Bancorp will be merged into Provident (collectively, the "Merger"), the Employer desires to assure itself of the services of the Executive for a period of time to encompass the closing of the Merger, and accordingly the Employer and the Executive desire to amend the Agreement to provide that the term will be extended to April 2, 2024; and

WHEREAS, the Employer has determined that it is in the best interests of the Employer and its stockholders to enter into this Amendatory Agreement to provide for the continued employment of Executive through April 2, 2024; and

WHEREAS, Section 14 of the Agreement permits the Agreement to be amended by a writing executed by the parties thereto.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the parties hereby agree as follows:

1. Section 1(a) of the Agreement is hereby amended and restated to read as follows:

   "**Section 1. *Employment.*** The Employer shall employ the Executive, and the Executive agrees to be employed by the Employer, upon the terms and conditions hereinafter provided, for a term commencing on April 2, 2008 (the "<u>Effective Date</u>") and expiring on April 1, 2011 (the "<u>Initial Term</u>"). The Initial Term shall be automatically extended for an additional one (1) year period on each anniversary date of the Effective Date, unless on or before each such anniversary date either party provides written notice to the other of its (or his) intent not to extend the then current term, provided, however, that on and after April 2, 2024, if the Executive remains employed by the Employer, his employment shall be on an at-will basis. By way of example, if either party does not want the Initial Term to extend beyond April 1, 2011, then such party must provide written notice to the other on or before April 2, 2009. Further by way of example, if the term of this Agreement has been extended to April 1, 2012, and either party does not want the term to be extended beyond such date, then such party must provide written notice to the other on or before April 2, 2010. The Initial Term and any renewal period hereunder through April 2, 2024 are referred to herein as the "Term"."

2. Continuation of Agreement. Except as expressly set forth herein, this Amendatory Agreement shall not by implication or otherwise alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect and shall be otherwise unaffected and per the terms of Executive's Executive Vice Chairman Agreement with Provident Financial Services, Inc., dated as of September 26, 2022, the Agreement will terminate on the closing of the Merger Agreement. Any terms not defined herein shall have the meaning ascribed to them in the Agreement.

3. Governing Law. This Amendatory Agreement and the rights and obligations hereunder shall be governed by and construed in accordance with the laws of the State of New Jersey.

4. Counterparts. This Amendatory Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed an original, and all of which together shall constitute but one and the same instrument.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the Employer has caused this Amendatory Agreement to be executed and the Executive has hereunto set his hand, all as of the date first above written.

EXECUTIVE:

/s/ Thomas J. Shara

Thomas J. Shara

LAKELAND BANCORP, INC.

By: /s/ Mary Ann Deacon

Mary Ann Deacon, Chair

LAKELAND BANK

By: /s/ Mary Ann Deacon

Mary Ann Deacon, Chair

Exhibit 21.1

LAKELAND BANCORP, INC.
SUBSIDIARIES OF THE REGISTRANT

Name	Jurisdiction of Incorporation
Lakeland Bank	New Jersey chartered bank
Lakeland NJ Investment Corporation (wholly owned subsidiary of Lakeland Bank)	New Jersey
Lakeland Investment Corporation (wholly owned subsidiary of Lakeland NJ Investment Corporation)	Delaware
Lakeland Equity, Inc. (wholly owned subsidiary of Lakeland Investment Corporation)	Delaware
Lakeland Preferred Equity, Inc. (wholly owned subsidiary of Lakeland Equity, Inc.)	New Jersey
NBSC Holdings, Inc. (wholly owned subsidiary of Lakeland Bank)	New Jersey
NBSC Properties, Inc. (wholly owned subsidiary of Lakeland Bank)	New Jersey
Lakeland Bancorp Capital Trust II	Delaware
Lakeland Bancorp Capital Trust IV	Delaware
Lakeland Title Group LLC (50% owned by Lakeland Bank)	New Jersey
Lakeland Financial Services Agency, Inc. (wholly owned subsidiary of Lakeland Bank)	New Jersey
1st Constitution Investment Company of New Jersey, Inc. (wholly owned subsidiary of Lakeland Bank)	New Jersey
1st Constitution Real Estate Corporation (wholly owned subsidiary of 1st Constitution Investment Company of New Jersey, Inc.)	New Jersey
FCB Asset Holdings, Inc. (wholly owned subsidiary of Lakeland Bank)	New Jersey
1st Constitution Capital Trust II	Delaware

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements (No. 333-225754 and No. 333-189059) on Form S-8, and in the registration statement (No. 333-237440) on Form S-3, of our reports dated February 28, 2023, with respect to the consolidated financial statements of Lakeland Bancorp, Inc. and the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

Short Hills, New Jersey
February 28, 2023

Exhibit 24.1

POWER OF ATTORNEY

WHEREAS, the undersigned officers and directors of Lakeland Bancorp, Inc. desire to authorize Thomas J. Shara and Thomas F. Splaine, Jr., to act as their attorneys-in-fact and agents, for the purpose of executing and filing the registrant's Annual Report on Form 10-K for the year ended December 31, 2022, including all amendments and supplements thereto,

NOW, THEREFORE,

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas J. Shara and Thomas F. Splaine, Jr., and each of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, to sign the registrant's Annual Report on Form 10-K for the year ended December 31, 2022, including any and all amendments and supplements thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this power of attorney in the following capacities as of February 16, 2023.

Signatures	**Title**
/s/ Bruce D. Bohuny Bruce D. Bohuny	Director
/s/ Mary Ann Deacon Mary Ann Deacon	Director
/s/ Brian M. Flynn Brian M. Flynn	Director
/s/ Mark J. Fredericks Mark J. Fredericks	Director
/s/ Brian Gragnolati Brian Gragnolati	Director
/s/ James E. Hanson II James E. Hanson	Director
/s/ Janeth C. Hendershot Janeth C. Hendershot	Director
/s/ Lawrence R. Inserra, Jr. Lawrence R. Inserra, Jr.	Director
/s/ Robert F. Mangano Robert F. Mangano	Director
/s/ Robert E. McCracken Robert E. McCracken	Director
/s/ Robert B. Nicholson, III Robert B. Nicholson, III	Director
/s/ Thomas J. Shara Thomas J. Shara	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ Thomas F. Splaine, Jr. Thomas F. Splaine, Jr.	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

Certification of Principal Executive Officer

I, Thomas J. Shara, certify that:

1. I have reviewed this annual report on Form 10-K of Lakeland Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2023

/s/ Thomas J. Shara

Thomas J. Shara
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification of Principal Financial Officer

I, Thomas F. Splaine, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Lakeland Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2023

/s/ Thomas F. Splaine, Jr.

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

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Lakeland Bancorp, Inc. (the “Company”) for the year ended December 31, 2022 filed with the Securities and Exchange Commission (the “Report”), Thomas J. Shara, President and Chief Executive Officer of the Company, and Thomas F. Splaine, Jr., Executive Vice President and Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and consolidated results of operations of the Company for the periods presented.

Dated: February 28, 2023

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

By: /s/ Thomas F. Splaine, Jr.
Thomas F. Splaine, Jr.
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.