LAKELAND BANCORP INC
Form 10-K
March 14, 2008
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007.

[ ] 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:

33-27312

LAKELAND BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Title of Each Class
Common Stock, no par value

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ______

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

Large accelerated filer ____	Accelerated filer _X_
Non-accelerated filer ____	Smaller Reporting Company ____

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

Table of Contents

As of June 30, 2007, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $255,000,000, based on the closing sale price as reported on the NASDAQ Global Select Market.

The number of shares outstanding of the registrant s Common Stock, as of February 1, 2008, was 23,281,667.

DOCUMENTS INCORPORATED BY REFERENCE:

Lakeland Bancorp, Inc s. Proxy Statement for its 2008 Annual Meeting of Shareholders (Part III).

Table of Contents

LAKELAND BANCORP, INC.

Form 10-K Index

PART I

Table of Contents

PART I

ITEM 1 - Business

GENERAL

Lakeland Bancorp, Inc. (the Company) is a bank holding company headquartered in Oak Ridge, New Jersey. The Company was organized in March of 1989 and commenced operations on May 19, 1989, upon the consummation of the acquisition of all of the outstanding stock of Lakeland Bank, formerly named Lakeland State Bank (Lakeland). Through Lakeland, the Company operates 49 banking offices, located in Morris, Passaic, Sussex, Warren, Essex and Bergen counties in New Jersey. Lakeland offers a full range of lending services, including commercial loans and leases, real estate and consumer loans to small and medium-sized businesses, professionals and individuals located in its markets.

The Company has grown substantially over the last several years, through a combination of organic growth and acquisitions. Lakeland has opened ten new branches since January 1, 2001.

The Company also has grown through acquisitions. Since 1998, the Company has acquired four community banks with an aggregate asset total of approximately $780 million. All of the acquired banks have been merged into Lakeland and their holding companies, if applicable, have been merged into the Company. A summary of the Company s community bank acquisitions is as follows:

Year	Financial Institutions Acquired	Assets of Financial Institutions Acquired(1)	
1998	Metropolitan State Bank	$	85.5 million
1999	High Point Financial Corp. and its National Bank of Sussex County subsidiary	$	252.7 million
2003	CSB Financial Corp. and its Community State Bank subsidiary	$	122.2 million
2004	Newton Financial Corp. and its Newton Trust Company subsidiary	$	320.5 million

(1) Measured as of the end of the last quarter prior to the Company s announcement of the acquisition.

The Company has also diversified its business through opportunistic purchases of specialized lending platforms. In 2000, Lakeland acquired NIA National Leasing and opened a leasing division which provides equipment lease financing to small and medium-sized business clients. In 2004, Lakeland acquired $25.0 million of net receivables and opened an asset based lending department which specializes in utilizing particular assets to fund the working capital needs of borrowers.

At December 31, 2007, the Company had total consolidated assets of $2.5 billion, total consolidated deposits of $2.0 billion, total consolidated loans, net of the allowance for loan losses, of $1.9 billion and total consolidated stockholders equity of $211.6 million.

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

Commercial Bank Services

Through Lakeland, the Company offers a broad range of lending, depository, and related financial services to individuals and small to medium sized businesses located primarily in northern New Jersey. In the lending area, these services include short and medium term loans, lines of credit, letters of credit, inventory and accounts receivable financing, real estate construction loans and mortgage loans. The Lakeland Bank

Table of Contents

Equipment Leasing Division provides a solution to small and medium sized companies who prefer to lease equipment over other financial alternatives. Lakeland s asset-based lending portfolio provides commercial borrowers with another lending alternative. Depository products include demand deposits, savings accounts, and time accounts. In addition, the Company offers collection, wire transfer, and night depository services.

Consumer Banking

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

Other Services

Investment and advisory services for individuals are also available.

Competition

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

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

The Company expects that competition will continue in the future.

Concentration

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

Employees

At December 31, 2007, the Company had 540 employees. None of these employees is covered by a collective bargaining agreement. The Company considers relations with its employees to be good.

SUPERVISION AND REGULATION

General

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

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

In June 2006, Lakeland entered into an agreement with the Department and the FDIC, in which Lakeland agreed to take certain actions to ensure its compliance with the federal Bank Secrecy Act. As a result of Lakeland s compliance with the agreement, such agreement has been terminated.

The Holding Company Act

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

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

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

Regulation of Bank Subsidiaries

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

Commitments to Affiliated Institutions

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

Table of Contents

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. This act also authorizes banks to merge across state lines, thereby creating interstate branches. Under the act, each state had the opportunity either to opt out of this provision, thereby prohibiting interstate branching in such state, or to opt in . A state may opt in with respect to de novo branching, thereby permitting a bank to open new branches in a state in which the bank does not already have a branch. Without de novo branching, an out-of-state bank can enter the state only by acquiring an existing bank. New Jersey enacted legislation to authorize interstate banking and branching and the entry into New Jersey of foreign country banks. New Jersey did not authorize de novo branching into the state. However, under federal law, federal savings banks, which meet certain conditions, may branch de novo into a state, regardless of state law.

Gramm-Leach Bliley Act of 1999

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

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

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

The USA PATRIOT Act

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

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

- All financial institutions must establish anti-money laundering programs that include, at a minimum: (i) internal policies, procedures, and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.

- The Secretary of the Department of Treasury, in conjunction with other bank regulators, was authorized to issue regulations that provide for minimum standards with respect to customer identification at the time new accounts are opened.

Table of Contents

- Financial institutions that establish, maintain, administer, or manage private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) are required to establish appropriate, specific and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.

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

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

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

Sarbanes-Oxley Act of 2002

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

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

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

The SOA addresses, among other matters:

- audit committees for all reporting companies;

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

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

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

- disclosure of off-balance sheet transactions;

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

Table of Contents

- expedited filing requirements for Forms 4 s;
- disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;
- real time filing of periodic reports;
- the formation of a public accounting oversight board;
- auditor independence; and
- various increased criminal penalties for violations of securities laws.

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

Regulation W

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

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

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

- a loan or extension of credit to an affiliate;
- a purchase of, or an investment in, securities issued by an affiliate;
- a purchase of assets from an affiliate, with some exceptions;

- the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; and

- the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, under Regulation W:

- a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;

- covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices;

and

with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by certain types of collateral with a market value ranging from 100% to 130%, depending on the type of collateral, of the amount of the loan or extension of credit.

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

Community Reinvestment Act

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

Securities and Exchange Commission

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

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

Effect of Government Monetary Policies

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

Table of Contents

Dividend Restrictions

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

If, in the opinion of the FDIC, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which could include the payment of dividends), the FDIC may require, after notice and hearing, that such bank cease and desist from such practice or, as a result of an unrelated practice, require the bank to limit dividends in the future. The Federal Reserve Board has similar authority with respect to bank holding companies. In addition, the Federal Reserve Board and the FDIC have issued policy statements which provide that insured banks and bank holding companies should generally only pay dividends out of current operating earnings. Regulatory pressures to reclassify and charge off loans and to establish additional loan loss reserves can have the effect of reducing current operating earnings and thus impacting an institution s ability to pay dividends. Further, as described herein, the regulatory authorities have established guidelines with respect to the maintenance of appropriate levels of capital by a bank or bank holding company under their jurisdiction. Compliance with the standards set forth in these policy statements and guidelines could limit the amount of dividends which the Company and Lakeland may pay. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), banking institutions which are deemed to be undercapitalized will, in most instances, be prohibited from paying dividends. See FDICIA . See also Note 17 - Regulatory Matters of the Notes to Consolidated Financial Statements for further information regarding dividends.

Capital Adequacy Guidelines

The Federal Reserve Board has adopted Risk-Based Capital Guidelines. These guidelines establish minimum levels of capital and require capital adequacy to be measured in part upon the degree of risk associated with certain assets. Under these guidelines all banks and bank holding companies must have a core or Tier 1 capital to risk-weighted assets ratio of at least 4% and a total capital to risk-weighted assets ratio of at least 8%. At December 31, 2007, the Company s Tier 1 capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio were 10.08% and 11.08%, respectively.

In addition, the Federal Reserve Board and the FDIC have approved leverage ratio guidelines (Tier 1 capital to average quarterly assets, less goodwill) for bank holding companies such as the Company. These guidelines provide for a minimum leverage ratio of 3% for bank holding companies that meet certain specified criteria, including that they have the highest regulatory rating. All other holding companies are required to maintain a leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points. The Company s leverage ratio was 8.11% at December 31, 2007.

Under FDICIA, federal banking agencies have established certain additional minimum levels of capital which accord with guidelines established under that act. See FDICIA .

FDICIA

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

-8-

Table of Contents

Under regulations adopted under these provisions, for an institution to be well capitalized it must have a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6% and a Tier 1 leverage ratio of at least 5% and not be subject to any specific capital order or directive. For an institution to be adequately capitalized it must have a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4% and a Tier 1 leverage ratio of at least 4% (or in some cases 3%). Under the regulations, an institution will be deemed to be undercapitalized if it has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio that is less than 4%, or a Tier 1 leverage ratio of less than 4% (or in some cases 3%). An institution will be deemed to be significantly undercapitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3%, or a leverage ratio that is less than 3% and will be deemed to be critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2%. An institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating or is deemed to be in an unsafe or unsound condition or to be engaging in unsafe or unsound practices. As of December 31, 2007, the Company and Lakeland met all regulatory requirements for classification as well capitalized under the regulatory framework for prompt corrective action.

In addition, FDICIA requires banking regulators to promulgate standards in a number of other important areas to assure bank safety and soundness, including internal controls, information systems and internal audit systems, credit underwriting, asset growth, compensation, loan documentation and interest rate exposure.

Deposit Insurance and Premiums

Effective March 31, 2006, the FDIC merged the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) into the Deposit Insurance Fund (DIF). As part of this legislation, the following changes were enacted. Effective April 1, 2006, the coverage limit for retirement accounts was increased to $250,000 with other accounts remaining at $100,000. Additionally, the amount of the premium assessment was determined by the FDIC s risk-based insurance assessment system in which each insured bank is placed in one of several assessment risk classifications based on the FDIC s evaluation. Banks with higher levels of capital and a low degree of supervisory concern are assessed lower premiums than banks with lower levels of capital or a higher degree of supervisory concern. Lakeland qualified for the lowest premium calculation and therefore was not required to pay any deposit premiums in 2006.

In November 2006, the FDIC adopted a new risk-based insurance assessment system effective January 1, 2007, designed to base what banks pay for deposit insurance on the risk they pose. In 2007, assessment rates ranged between 5 cents per $100 of assessable deposits in the lowest risk category to 43 cents per $100 of assessable deposits in the highest risk category. An FDIC assessment credit for prior contributions offset the assessment for 2007. It is estimated that at current assessment rates, Lakeland s assessment for 2008 will be $1.0 million.

In addition to deposit insurance assessments, the FDIC is required to continue to collect from institutions payments for the servicing of obligations of the Financing Corporation (FICO) that were issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding. Lakeland paid a FICO premium of $220,000 in 2007 and expects to pay a similar premium in 2008.

Proposed Legislation

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

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

Table of Contents

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.

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

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

- inflation or recession;
- a rise or fall in unemployment;
- tightening or expansion of the money supply;
- domestic and international disorder; and
- instability in domestic and foreign financial markets.

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

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

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

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

Like all commercial banks, Lakeland maintains an allowance for loan and lease losses to provide for loan and lease defaults and non-performance. If our allowance for loan and lease losses is not adequate to cover actual loan and lease losses, we may be required to significantly increase future provisions for loan and lease losses, which could materially and adversely affect our operating results. Our allowance for loan and lease losses is determined by analyzing historical loan and lease losses, current trends in delinquencies and charge-offs, plans for problem loan and lease resolution, the opinions of our regulators, changes in the size and composition of the loan and lease portfolio and industry information. We also consider the possible effects of economic events, which are difficult to predict. The amount of future losses is affected by changes in economic, operating and other conditions, including changes in interest rates, many of which are beyond

-10-

Table of Contents

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

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

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

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

A downturn in the real estate market, particularly in New Jersey, could hurt our business. If there is a significant decline in real estate values in New Jersey, our ability to recover on defaulted loans by selling the underlying real estate would be reduced, and we would be more likely to suffer losses on defaulted loans.

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

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

Factors outside our control could have an adverse effect on our liquidity and operating results.

Like all commercial banking institutions, we rely on deposits as one of our sources of funds to make loans and meet our other liquidity needs. We believe that recently, a more competitive interest rate environment has caused a flow of funds away from financial institutions such as Lakeland into investments in equity securities, real estate, money market funds and other investments where the potential returns and liquidity characteristics may be more appealing to certain depositors. In addition, a significant amount of our deposits are from municipalities, which typically withdraw funds periodically. This results in more volatility in our level of deposits than would otherwise be the case. If we are unable to continue to attract new deposits, our liquidity could be adversely affected. If we are required to pay higher rates on deposits to attract and retain them, our operating results could be adversely affected.

Recently, capital markets have been impacted by the downgrading of ratings of various municipal bond insurers and by the turmoil in the sub-prime debt market. Downgrades of municipal bond insurers reflect the perception by ratings agencies that the insurers have a reduced ability to fulfill their obligations for the bonds they insure. The market value of the municipal bonds in Lakeland s investment portfolio may be affected by the downgrades of the credit ratings of the bond insurers. Similarly the turmoil in the sub-prime debt market may impact other asset classes. Such conditions could reduce Lakeland s liquidity or operating results.

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

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

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

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

ITEM 1B - Unresolved Staff Comments

Not Applicable.

ITEM 2 - Properties

The Company s principal office is located at 250 Oak Ridge Road, Oak Ridge, New Jersey 07438. It also maintains an operations center in Branchville, New Jersey.

The Company operates 49 banking locations in Passaic, Morris, Sussex, Bergen, Essex and Warren Counties, New Jersey. The following chart provides information about the Company s leased offices:

Location	Lease Expiration Date
Caldwell	April 30, 2024
Carlstadt	July 15, 2016
Cedar Crest	August 19, 2011
Fairfield	February 28, 2010
Hackensack	April 11, 2008
Hampton	September 30, 2019
Little Falls	November 30, 2010
Morristown	August 31, 2009
Madison Avenue	May 7, 2012
Newton	December 31, 2011
North Haledon	June 30, 2017
Park Ridge	December 31, 2009
Pompton Plains	March 31, 2015
Ringwood	February 28, 2013
Rockaway	May 31, 2009
Sussex/Wantage	June 19, 2012
Trinity Street	December 31, 2011
Vernon	September 30, 2011
Wantage	October 31, 2011
Wharton	July 24, 2010
Woodland Commons	August 31, 2016

For information regarding all of the Company s rental obligations, see Notes to Consolidated Financial Statements.

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

Table of Contents

ITEM 3 - Legal Proceedings

In 2001, a complaint captioned Ronnie Clayton dba Clayton Trucking, et al v. Ronald Fisher, et al was filed in the Los Angeles County Superior Court against Lakeland and others. Plaintiffs are certain of the lessees who had entered into leases with Commercial Money Center, Inc. (CMC). (As previously disclosed, Lakeland had purchased four separate portfolios of predominantly commercial leases from CMC.) Plaintiffs allege, among other things, that these leases are not true leases but are instead loans which charge usurious interest rates. They further allege that because of various California Financial Code violations by CMC, the lease instruments are either void or must be reformed and all amounts paid by the lessees must be returned to them. The action against Lakeland has been stayed while an appeal by plaintiffs is pending concerning the dismissal of certain of plaintiffs claims against defendants.

From time to time, the Company and its subsidiaries are defendants in legal proceedings relating to their respective businesses. While the ultimate outcome of any pending matter cannot be determined at this time, management does not believe that the outcome of any pending legal proceeding will materially affect the consolidated financial position of the Company, but could possibly be material to the consolidated results of operations of any one period.

ITEM 4 - Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders of the Company during the fourth quarter of 2007.

ITEM 4A - Executive Officers of the Registrant

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

Name and Age	Officer of The Company Since	Position with the Company, its Subsidiary Banks, and Business Experience
Roger Bosma Age 65	1999	President and Chief Executive Officer of the Company (June, 1999 Present); President and Chief Executive Officer of Lakeland Bank (January, 2002 Present)
Robert A. Vandenbergh Age 56	1999	Senior Executive Vice President and Chief Lending Officer of the Company (December, 2006 Present; Executive Vice President and Chief Lending Officer of the Company (October, 1999 December, 2006); President, The National Bank of Sussex County (November, 1998 June, 2001)
Joseph F. Hurley Age 57	1999	Executive Vice President and Chief Financial Officer of the Company (November, 1999 Present)
Jeffrey J. Buonforte Age 56	1999	Executive Vice President and Chief Retail Officer of the Company (November, 1999 Present)
Louis E. Luddecke Age 61	1999	Executive Vice President and Chief Operations Officer of the Company (October, 1999 Present)

Table of Contents

Steven Schachtel Age 50	2000	President, Lakeland Bank Equipment Leasing Division (April, 2000 Present)
James R. Noonan Age 56	2003	Executive Vice President and Chief Credit Officer of the Company (December, 2003 Present); Senior Vice President and Chief Credit Officer of the Company (March, 2003 December, 2003); Senior Credit Officer, Fleet National Bank (prior years February, 2003)

-14-

Table of Contents

PART II

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

Shares of the Common Stock of Lakeland Bancorp, Inc. have been traded under the symbol LBAI on the NASDAQ Global Select Market (or the Nasdaq National Market) since February 22, 2000 and in the over the counter market prior to that date. As of December 31, 2007, there were 3,723 shareholders of record of Common Stock. The following table sets forth the range of the high and low daily closing prices of the Common Stock as provided by Nasdaq and dividends declared for the periods presented. Prices and dividends have been adjusted to reflect the Company s 5% stock dividends paid on November 16, 2007 and August 16, 2006.

Year ended December 31, 2007	High	Low	Dividends Declared
First Quarter	$ 14.71	$ 12.48	$ 0.095
Second Quarter	13.48	12.34	0.095
Third Quarter	13.42	9.97	0.095
Fourth Quarter	13.97	11.15	0.095

Year ended December 31, 2006	High	Low	Dividends Declared
First Quarter	$ 14.56	$ 13.06	$ 0.090
Second Quarter	14.21	12.07	0.090
Third Quarter	14.56	12.71	0.090
Fourth Quarter	14.70	12.27	0.095

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

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

The New Jersey Banking Act of 1948 restricts the amount of dividends paid on the capital stock of New Jersey chartered banks. Accordingly, no dividends shall be paid by such banks on their capital stock unless, following the payment of such dividends, the capital stock of the bank will be unimpaired and the bank will have a surplus of not less than 50% of its capital stock, or, if not, the payment of such dividend will not reduce the surplus of the bank. Under this limitation, approximately $172.9 million was available for the payment of dividends from Lakeland to the Company as of December 31, 2007.

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

Table of Contents

Equity Compensation Plan Information

The following table gives information about the Company s Common Stock that may be issued upon the exercise of options under the Company s Amended and Restated 2000 Equity Compensation Program (the Stock Option Plan), as of December 31, 2007. This plan was Lakeland s only equity compensation plan in existence as of December 31, 2007. No warrants or rights may be granted, or are outstanding, under the Stock Option Plan.

Plan Category	(a) Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price Of Outstanding Options, Warrants and Rights	(c) Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected In Column (a))
Equity Compensation Plans Approved by Shareholders	**1,204,663**	**$ 12.71**	**641,802**
Equity Compensation Plans Not Approved by Shareholders			
TOTAL	**1,204,663**	**$ 12.71**	**641,802**

The number in column (a) includes 48,423 shares subject to restricted stock awards granted under the Company s Stock Option Plan, including unvested shares. Shares subject to restricted stock awards have been excluded for purposes of calculating the weighted-average exercise price in column (b).

Performance Graph

The following chart compares Lakeland s cumulative total shareholder return (on a dividend reinvested basis) over the past five years with the NASDAQ Market Index and the Peer Group Index. The Peer Group Index is the Hemscott Group Index, which consists of 209 Regional Northeast Banks. Hemscott acquired Core Data, which had previously provided a comparable Peer Group Index.

	FISCAL YEAR ENDING					
COMPANY/INDEX/MARKET	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
LAKELAND BANCORP, INC.	100.00	96.46	108.28	97.75	106.98	90.14
HEMSCOTT GROUP INDEX	100.00	130.85	142.14	143.90	164.64	154.64
NASDAQ MARKET INDEX	100.00	150.36	163.00	166.58	183.68	201.91

Table of Contents

Item 6 - Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

(Not covered by Report of Independent Registered Public Accounting Firm)

Years Ended December 31	2007	2006	2005	2004 (2)	2003 (3)
		(in thousands except per share data)			
Interest income	$ 136,378	$ 119,808	$ 103,839	$ 83,319	$ 66,922
Interest expense	64,650	53,104	33,632	21,817	16,224
Net interest income	71,728	66,704	70,207	61,502	50,698
Provision for loan and lease losses	5,976	1,726	1,555	3,602	3,000
Noninterest income	16,858	17,175	15,128	12,761	10,926
Gains (losses) on sales of investment securities	1,769	(2,995)	(583)	638	1,857
Noninterest expenses	58,190	54,721	53,392	47,185	38,287
Income before income taxes	26,189	24,437	29,805	24,114	22,194
Income tax provision	8,201	7,460	9,584	7,619	7,087
Net income	$ 17,988	$ 16,977	$ 20,221	$ 16,495	$ 15,107
Per-Share Data(1)					
Weighted average shares outstanding:					
Basic	23,187	23,141	23,637	21,310	17,690
Diluted	23,285	23,292	23,815	21,572	17,935
Earnings per share:					
Basic	$ 0.78	$ 0.73	$ 0.86	$ 0.77	$ 0.85
Diluted	$ 0.77	$ 0.73	$ 0.85	$ 0.76	$ 0.84
Cash dividend per common share	$ 0.38	$ 0.37	$ 0.35	$ 0.35	$ 0.32
Book value per common share	$ 9.09	$ 8.61	$ 8.24	$ 8.13	$ 6.01
At December 31					
Investment securities available for sale	$ 273,247	$ 280,509	$ 515,903	$ 582,106	$ 557,402
Investment securities held to maturity	129,360	142,838	154,569	162,922	43,009
Loans, net of deferred fees	1,886,535	1,591,644	1,312,767	1,176,005	851,536
Goodwill and other identifiable intangible assets	90,874	92,053	93,395	94,119	27,609
Total assets	2,513,771	2,263,573	2,206,033	2,141,021	1,585,290
Total deposits	1,987,405	1,860,627	1,798,160	1,726,804	1,325,682
Total core deposits	1,383,234	1,357,748	1,350,567	1,360,980	1,038,195
Long-term borrowings	249,077	148,413	101,764	98,991	89,500
Total stockholders equity	211,599	199,500	191,781	194,548	110,951
Performance ratios					
Return on Average Assets	0.76%	0.76%	0.94%	0.90%	1.10%
Return on Average Equity	8.81%	8.85%	10.55%	10.79%	15.45%
Return on Tangible Equity(4)	15.97%	17.14%	20.69%	17.99%	17.58%
Efficiency ratio	63.18%	62.28%	59.76%	60.70%	60.32%
Net Interest Margin (tax equivalent basis)	3.41%	3.39%	3.73%	3.82%	4.12%
Loans to Deposits	94.92%	85.54%	73.01%	68.10%	64.23%
Capital ratios					
Tier 1 leverage ratio	8.11%	7.51%	7.49%	7.71%	7.84%
Total risk-based capital ratio	11.08%	10.96%	12.47%	13.27%	15.96%

(1) Restated for 5% stock dividends in 2007, 2006, 2005 and 2003.

(2) The results of operations include Newton Trust Company from July 1, 2004 forward.

(3) The results of operations include Community State Bank from August 25, 2003 forward.

(4) This is a non-GAAP ratio. Return on Tangible Equity is defined as net income as a percentage of average total equity reduced by recorded intangible assets. This may be important to investors that are interested in analyzing our return on equity exclusive of the effect of changes in intangible assets on equity.

Table of Contents

The following reconciliation table provides a more detailed analysis of this non-GAAP performance measure:

Years Ended December 31	**2007**	**2006**	**2005**	**2004**	**2003**
Return on average equity	**8.81%**	8.85%	10.55%	10.79%	15.45%
Effect of intangibles	**7.16%**	8.29%	10.14%	7.20%	2.13%
Return on average tangible equity	**15.97%**	17.14%	20.69%	17.99%	17.58%

-18-

Table of Contents

Item 7

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

This section presents a review of Lakeland Bancorp, Inc. s consolidated results of operations and financial condition. You should read this section in conjunction with the selected consolidated financial data that is presented on the preceding page as well as the accompanying 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 Newton Trust Company (Newton) was merged into Lakeland on November 4, 2005. Newton Financial Corporation (NFC), the parent company of Newton, was merged into the Company on July 1, 2004 and Community State Bank (CSB) was merged into Lakeland on August 25, 2003.

Statements Regarding Forward-Looking Information

The information disclosed in this document includes various forward-looking statements that are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 with respect to credit quality (including delinquency trends and the allowance for loan and lease losses), corporate objectives, and other financial and business matters. The words anticipates, projects, intends, estimates, expects, believes, plans, may, will, should, could, and other sim 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 factors disclosed by the Company elsewhere in this document, the following factors, among others, could cause the Company s actual results to differ materially and adversely from such forward-looking statements: pricing pressures on loan and deposit products; competition; changes in economic conditions nationally, regionally and in the Company s markets; the extent and timing of actions of the Federal Reserve Board; changes in levels of market interest rates; clients acceptance of the Company s products and services; credit risks of lending activities; changes in the conditions of the capital markets in general and in the capital markets for financial institutions in particular and the impact of the war in Iraq on such markets; and the extent and timing of legislative and regulatory actions and reforms.

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.

Significant Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company and Lakeland conform with accounting principles generally accepted in the United States of America and predominant practices within the banking industry. The consolidated financial statements include the accounts of the Company, Lakeland, Lakeland Investment Corp., and Lakeland NJ Investment Corp. All intercompany balances and transactions have been eliminated.

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

The principal estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan and lease losses, the Company s deferred tax asset and the analysis of goodwill impairment. The evaluation of the adequacy of the allowance for loan and lease losses includes, among other factors, an analysis of historical loss rates, by category, applied to current loan totals. However, actual losses may be higher or lower than historical trends, which vary. Actual losses on specified problem loans, which also are provided for in the

Table of Contents

evaluation, may vary from estimated loss percentages, which are established based upon a limited number of potential loss classifications.

The allowance for loan and lease losses is established through a provision for loan and lease losses charged to expense. Loan principal considered to be uncollectible by management is charged against the allowance for loan and lease losses. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible based upon an evaluation of known and inherent risks in the loan portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan portfolio, overall portfolio quality, specific problem loans, and current economic conditions which may affect the borrowers ability to pay. The evaluation also details historical losses by loan category, the resulting loss rates for which are projected at current loan total amounts. Loss estimates for specified problem loans are also detailed. All of the factors considered in the analysis of the adequacy of the allowance for loan and lease losses may be subject to change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods.

The Company accounts for impaired loans in accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures. Impairment is measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan s observable market price, or the fair value of the collateral if the loan is collateral-dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

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

On January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), to account for any tax positions that may be uncertain. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Additional information regarding the Company s uncertain tax positions is set forth in Note 9 to the Notes to the audited Consolidated Financial Statements contained herein.

The Company accounts for goodwill and other identifiable intangible assets in accordance with SFAS No. 142, Goodwill and Intangible Assets. SFAS No. 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them. The Company tests goodwill for impairment annually at the reporting unit level using various market valuation methodologies. The Company has tested the goodwill as of December 31, 2007 and has determined that it is not impaired.

Financial Overview

The year ended December 31, 2007 represented a year of continued growth for the Company. As discussed in this management s discussion and analysis:

Total loans and leases increased by $295.4 million or 19% from 2006 to 2007.

Total assets increased to $2.51 billion, an 11% increase from 2006.

Net income increased $1.0 million or 6% from 2006 to 2007.

Lakeland s net interest margin stabilized at 3.41%, up 2 basis points from 2006.

The Company improved regulatory capital with the issuance of $20.6 million in subordinated debentures and related trust preferred securities.

Table of Contents

Net income for 2007 was $18.0 million or $0.77 per diluted share compared to net income of $17.0 million and $0.73 per diluted share in 2006. For 2007, Return on Average Assets was 0.76% and Return on Average Equity was 8.81%. For 2006, Return on Average Assets was 0.76% and Return on Average Equity was 8.85%.

In 2007, the Company recognized a $1.8 million gain on equity securities in its investment portfolio resulting from the acquisition of a financial institution in which the Company owned stock. The Company s provision for loan and lease losses was increased by $4.3 million from $1.7 million in 2006 to $6.0 million in 2007 resulting primarily from a charge-off in the fourth quarter of 2007 of a $3.1 million commercial and industrial loan.

In 2006, Lakeland s earnings were impacted by a balance sheet restructuring where the Company sold $97.3 million in securities yielding 3.47% for a loss of $3.3 million to lower its borrowings and to fund loan growth. Also, in 2006, the Company expensed $300,000 in costs related to a stock offering which the Company elected not to complete.

In 2005, net income was $20.2 million or $0.85 per diluted share with a Return on Average Assets of 0.94% and a Return on Average Equity of 10.55%.

Net interest income

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

Net interest income for 2007 on a tax-equivalent basis was $73.4 million, representing an increase of $4.6 million, or 7%, from the $68.7 million earned in 2006. The increase in net interest income resulted from an increase in earning assets of $122.1 million and a 41 basis point increase in the yield on earning assets partially offset by a 45 basis point increase in the cost of funds and a $108.3 million increase in interest-bearing liabilities. Also contributing to the increase in net interest income was an increase in income earned on free funds (interest-earning assets funded by non-interest bearing liabilities) resulting from the increase in yield on interest-earning assets.

Net interest income for 2006 on a tax equivalent basis was $68.7 million, representing a decrease of $3.5 million or 5% from the $72.2 million earned in 2005. The decrease in net interest income from 2005 to 2006 resulted from an increase in the Company s cost of funds of 101 basis points and a $90.7 million increase in average interest-bearing liabilities partially offset by a $91.5 million increase in average interest-earning assets and a 55 basis point increase in the yield on average interest-earning assets. Factors contributing to the decline in the net interest margin will be discussed in further detail below.

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

Table of Contents

INTEREST INCOME AND EXPENSE VOLUME/RATE ANALYSIS

(tax equivalent basis, in thousands)

	2007 vs. 2006			2006 vs. 2005		
	Increase (Decrease) Due to Change in:		**Total**	Increase (Decrease) Due to Change in:		Total
	Volume	**Rate**	**Change**	Volume	Rate	Change
Interest Income						
Loans	**$ 19,761**	**$ 2,369**	**$ 22,130**	$ 12,926	$ 5,595	$ 18,521
Taxable investment securities	**(7,353)**	**1,907**	**(5,446)**	(4,652)	1,740	(2,912)
Tax-exempt investment securities	**(1,115)**	**41**	**(1,074)**	161	(63)	98
Federal funds sold	**586**	**(2)**	**584**	(14)	310	296
Total interest income	**11,879**	**4,315**	**16,194**	8,421	7,582	16,003
Interest Expense						
Savings deposits	**(110)**	**1,578**	**1,468**	(65)	2,328	2,263
Interest-bearing transaction accounts	**1,127**	**1,923**	**3,050**	219	6,910	7,129
Time deposits	**2,653**	**3,557**	**6,210**	1,881	5,441	7,322
Borrowings	**643**	**175**	**818**	1,247	1,511	2,758
Total interest expense	**4,313**	**7,233**	**11,546**	3,282	16,190	19,472
NET INTEREST INCOME (TAX EQUIVALENT BASIS)	**$ 7,566**	**$ (2,918)**	**$ 4,648**	$ 5,139	$ (8,608)	$ (3,469)

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

-22-

Table of Contents

CONSOLIDATED STATISTICS ON A TAX EQUIVALENT BASIS

	2007			2006			2005		
	Average Balance	**Interest Income/ Expense**	**Average rates earned/ paid**	Average Balance	Interest Income/ Expense	Average rates earned/ paid	Average Balance	Interest Income/ Expense	Average rates earned/ paid
					(dollars in thousands)				
Assets									
Interest-earning assets:									
Loans (A)	**$ 1,708,467**	**$ 117,039**	**6.85%**	$ 1,419,272	$ 94,909	6.69%	$ 1,222,084	$ 76,388	6.25%
Taxable investment securities	**326,376**	**14,669**	**4.49%**	485,607	20,115	4.14%	593,789	23,027	3.88%
Tax-exempt securities	**82,294**	**4,655**	**5.66%**	102,003	5,729	5.62%	99,110	5,631	5.68%
Federal funds sold (B)	**33,208**	**1,644**	**4.95%**	21,379	1,060	4.96%	21,798	764	3.50%
Total interest-earning assets	**2,150,345**	**138,007**	**6.42%**	2,028,261	121,813	6.01%	1,936,781	105,810	5.46%
Noninterest earning assets:									
Allowance for loan and lease losses	**(14,018)**			(13,007)			(15,513)		
Other assets	**224,608**			218,901			232,455		
TOTAL ASSETS	**$ 2,360,935**			$ 2,234,155			$ 2,153,723		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Savings accounts	**$ 324,573**	**$ 5,815**	**1.79%**	$ 332,821	$ 4,347	1.31%	$ 343,219	$ 2,084	0.61%
Interest-bearing transaction accounts	**749,093**	**21,886**	**2.92%**	708,224	18,836	2.66%	695,415	11,707	1.68%
Time deposits	**538,376**	**24,573**	**4.56%**	474,693	18,363	3.87%	411,704	11,041	2.68%
Borrowings	**229,095**	**12,376**	**5.40%**	217,148	11,558	5.32%	191,807	8,800	4.59%
Total interest-bearing liabilities	**1,841,137**	**64,650**	**3.51%**	1,732,886	53,104	3.06%	1,642,145	33,632	2.05%
Noninterest-bearing liabilities:									
Demand deposits	**300,156**			296,853			308,025		
Other liabilities	**15,515**			12,684			11,945		
Stockholders equity	**204,127**			191,732			191,608		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 2,360,935**			$ 2,234,155			$ 2,153,723		
Net interest income/spread		**73,357**	**2.91%**		68,709	2.94%		72,178	3.42%
Tax equivalent basis adjustment		**1,629**			2,005			1,971	
NET INTEREST INCOME		**$ 71,728**			$ 66,704			$ 70,207	
Net interest margin (C)			**3.41%**			3.39%			3.73%

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

Total interest income on a tax equivalent basis increased from $121.8 million in 2006 to $138.0 million in 2007, an increase of $16.2 million due to a $122.1 million increase in interest-earning assets along with an increase in the yield on interest earning assets. The change in mix also contributed to the increase in interest income. Loans as a percent of interest earning assets increased to 79% in 2007 compared to 70% in 2006. Investment securities as a percent of interest earning assets decreased to 19% in 2007 from 29% in 2006. Loans typically earn a higher rate than investment securities.

Total interest income on a tax equivalent basis increased from $105.8 million in 2005 to $121.8 million in 2006, an increase of $16.0 million. The increase in interest income from 2005 to 2006 was primarily due to a $91.5 million increase in interest-earning assets due to growth in the loan portfolio. The increase in interest income was also due to a 55 basis point increase in the average yield on earning assets due to a shift in the Company s mix in earning assets from lower yielding investment securities and federal funds sold to higher yielding loans. Loans as a percent of average interest-earning assets increased from 63% in 2005 to 70% in 2006.

Total interest expense increased from $53.1 million in 2006 to $64.7 million in 2007 primarily as a result of an increase in average rates paid on interest-bearing liabilities from 3.06% in 2006 to 3.51% in 2007. Also impacting interest expense was an increase in total interest-bearing liabilities of $108.3 million or 6% from 2006 with the majority of the increase in average time deposits which increased $63.7 million or 13%. The cost of time deposits increased 69 basis points to 4.56% in 2007 resulting from a certificate of deposit promotion that Lakeland used to fund loan growth. Time deposits as a percent of interest-bearing liabilities increased from 27% in 2006 to 29% in 2007.

Total interest expense increased from $33.6 million in 2005 to $53.1 million in 2006 as a result of an increase in average rates paid on interest-bearing liabilities from 2.05% in 2005 to 3.06% in 2006. An increase in interest-bearing liabilities of $90.7 million to $1.7 billion in 2006 also contributed to the increase in interest expense. A change in the mix of the deposits from lower costing core deposits to higher costing time deposits also had the effect of increasing the Company s cost of funds. Average savings and interest-bearing transaction accounts decreased from 63% of total interest-bearing liabilities in 2005 to 60% in 2006. Noninterest-bearing demand deposits also decreased from $308.0 million in 2005 to $296.9 million in 2006. Higher yielding time deposits increased from 25% of interest-bearing liabilities in 2005 to 27% of total deposits in 2006.

Net Interest Margin

Net interest margin is calculated by dividing net interest income on a fully taxable equivalent basis by average interest-earning assets. The Company s net interest margin was 3.41%, 3.39% and 3.73% for 2007, 2006 and 2005, respectively. The increase in the net interest margin from 2006 to 2007 resulted from the shift in interest earning assets from lower yielding investments to higher yielding loans. The decrease in the net interest margin from 2005 to 2006 resulted from deposits repricing faster than interest-earning assets and from a shift in interest-bearing liabilities from core deposits to time deposits and borrowings.

Provision for Loan and Lease Losses

In determining the provision for loan and lease losses, management considers national and local economic conditions; trends in the portfolio including orientation to specific loan types or industries; experience, ability and depth of lending management in relation to the complexity of the portfolio; adequacy and adherence to policies, procedures and practices; levels and trends in delinquencies, impaired loans and net charge-offs and the results of independent third party loan review. The provision for loan and lease losses at $6.0 million in 2007 increased from $1.7 million in 2006 due to management s evaluation of the loan portfolio and reflected higher levels of nonperforming loans and charge-offs in 2007 compared to 2006. For more information, see Financial Condition Risk Elements below. Net charge-offs increased from $1.4 million in 2006 to $4.7 million in 2007 including the $3.1 million charge-off of a single commercial and industrial loan referred to in the Financial Overview above. Net charge-offs as a percent of average loans outstanding increased from 0.10% in 2006 to 0.28% in 2007.

The 2006 provision for loan and lease losses at $1.7 million increased from $1.6 million in 2005 due to management s evaluation of the loan portfolio. Net charge-offs were $5.0 million in 2005, including a $3.0 million charge-off of a commercial lease pool due to the settlement with the last surety company which issued surety bonds to guarantee the income stream of such lease pool. For more information on the commercial lease pools, please see Note 14 to the Consolidated Financial Statements. The ratio of net charge-offs to average loans outstanding was 0.41% in 2005. Without the impact of the commercial lease pool charge-off in 2005, the ratio of net-charge-offs to average loans outstanding would have been 0.16%.

Noninterest Income

Noninterest income increased from $14.2 million in 2006 to $18.6 million in 2007 as a result of an increase in gains (losses) on securities from a loss of $3.0 million in 2006 to a gain of $1.8 million in 2007. In 2007, the Company recognized a $1.8 million gain on equity securities in its investment portfolio resulting from the acquisition of a financial institution in which the Company owned stock. In 2006, the Company effected a balance sheet restructuring in which the Company sold $97.3 million in securities at a loss of $3.3 million. Commissions and fees decreased $499,000 or 14% to $3.1 million in 2007 due to a decrease in investment services brokerage income and a decrease in loan fee income. Other income increased $276,000 to $1.8 million as a result of non-interest related leasing income. Noninterest income represented 20.6% of total revenue in 2007. (Total revenue is defined as net interest income plus non-interest income.)

Noninterest income declined from $14.5 million in 2005 to $14.2 million in 2006 as a result of the balance sheet restructuring in 2006 referred to above. As a result, losses on sales of investment securities increased from

Table of Contents

$583,000 in 2005 to $3.0 million in 2006. Offsetting the impact of the loss on the sale of securities was a $1.2 million or 12% increase in service charges on deposit accounts from 2005 to 2006 resulting from the overdraft privilege program that was implemented in May of 2005. Commissions and fees increased $521,000 or 17% to $3.6 million in 2006 due to an increase in investment services brokerage income from $284,000 in 2005 to $1.0 million in 2006. In 2005, Lakeland received commission income on the sales of investment services net of commission expense paid to the licensed sales representatives. In 2006, Lakeland employed its own sales representatives, and as a result, recorded gross commission income received on the sales of investments and $495,000 in commission expense paid to its sales representatives in salaries and benefit expense. Partially offsetting the increase in commission income is a decrease in loan fees of $186,000. Other income increased $340,000 to $1.6 million as a result of a gain on the sale of a branch completed in the first quarter of 2006. Noninterest income represented 17.5% of total revenue in 2006.

Noninterest Expense

Noninterest expense increased $3.5 million or 6% from $54.7 million in 2006 to $58.2 million in 2007. Total salaries and benefit expense increased $2.0 million or 7% from $30.8 million in 2006 to $32.9 million in 2007 resulting from normal salary and benefit increases, increased leasing commissions and expenses related to new branches. Net occupancy expense increased $491,000 or 9% to $5.9 million as a result of expense related to branches opened in 2007 and mid-2006. Marketing expense increased from $1.6 million in 2006 to $1.8 million in 2007 as a result of deposit promotions and branch openings. Other expenses increased from $9.4 million in 2006 to $10.0 million in 2007, an increase of $522,000 or 6%. This increase resulted from increased telecommunications expense and other miscellaneous expense related to branch openings.

Noninterest expense increased $1.3 million or 2% from $53.4 million in 2005 to $54.7 million in 2006. Total salaries and benefit expense increased $2.3 million or 8% from $28.5 million in 2005 to $30.8 million in 2006. Part of this increase resulted from the termination of the Company s post-retirement benefit plan in 2005 and the reduction of a $750,000 accrual related to the post retirement benefit plan in 2005. Also impacting the increase in salary expense were normal salary and benefit increases and staffing increases including the licensed investment sales representatives referred to above. Partially offsetting the increased salary and benefit costs were declines in medical insurance expense relating to a revision of the Company s medical insurance program which resulted in a $359,000 or 11% decrease in costs from 2005 to 2006. Stationery, supplies and postage expense declined $175,000 or 10% from $1.8 million in 2005 to $1.6 million in 2006 primarily as a result of decreased supply expenses resulting from the merger of Newton into Lakeland. Other expenses declined from $10.4 million in 2005 to $9.4 million in 2006, a decline of $930,000 or 9%. Included in this decrease was a decline in legal fees from $811,000 in 2005 to $618,000 in 2006 resulting from a recovery of litigation costs from the Company s insurance carrier related to the purchased lease pools discussed in Note 14 of the Consolidated Financial Statements-Commitments and Contingencies-Litigation. The decrease in other expenses also included a $196,000 decline in director fees from 2005 to 2006 resulting from the merger of Newton with Lakeland and from a decline in the Company s provision for unfunded lending commitments from $525,000 in 2005 to $61,000 in 2006.

The efficiency ratio expresses the relationship between non-interest expense (excluding other real estate expense and core deposit amortization) to total tax-equivalent revenue (excluding gains (losses) on sales of securities). In 2007, the Company s efficiency ratio on a tax equivalent basis increased to 63.2% from 62.3% in 2006. The efficiency ratio was 59.8% in 2005. The increase in the efficiency ratio from 2006 to 2007 resulted from non-interest expense growing at a faster rate than tax-equivalent revenue.

Income Taxes

The Company s effective income tax rate was 31.3%, 30.5% and 32.2%, in the years ended December 31, 2007, 2006 and 2005, respectively. The Company s effective tax rate increased from 2006 to 2007 because its interest on tax-exempt securities decreased from $3.7 million in 2006 to $3.0 million in 2007. The Company s effective tax rate declined from 2005 to 2006 because the Company s pre-tax income declined 18%, and its interest on tax-exempt securities as a percent of pre-tax income increased.

Table of Contents

Financial Condition

Total assets increased from $2.26 billion on December 31, 2006 to $2.51 billion on December 31, 2007, an increase of $250.2 million, or 11%. Total assets at year-end 2006 increased $57.5 million or 3% from year-end 2005.

Loans

Lakeland primarily serves Northern New Jersey and the surrounding areas. Its leasing division serves a broader national market. All of its borrowers are U.S. residents or entities.

Total loans increased from $1.59 billion on December 31, 2006 to $1.88 billion on December 31, 2007, an increase of $295.4 million or 19%. The increase in loans occurred in all major loan categories except home equity and consumer installment. Commercial loans increased from $714.5 million to $821.6 million, an increase of $107.1 million or 15%. Leases increased from $196.5 million to $355.6 million, an increase of $159.1 million or 81%. The residential real estate mortgage portfolio also increased $29.7 million or 11%. The home equity and consumer installment portfolio decreased from $315.0 million in 2006 to $310.4 million in 2007, a decrease of $4.7 million or 1%. Real estate construction loans, which include both residential and commercial construction loans, increased from $87.6 million in 2006 to $91.7 million in 2007, an increase of $4.1 million or 5%. Total loans increased from $1.31 billion in 2005 to $1.59 billion in 2006, an increase of $278.7 million or 21%. The majority of the growth was in the commercial loan portfolio and leases which increased $124.8 million or 21% and $106.3 million or 118% respectively.

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

	December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
			(in thousands)		
Commercial	**$ 821,621**	$ 714,496	$ 589,646	$ 512,810	$ 330,101
Leases	**355,644**	196,518	90,194	87,787	62,278
Real estate mortgage	**301,798**	272,102	256,621	217,500	178,404
Real estate construction	**91,706**	87,562	68,325	62,687	20,476
Home equity and consumer installment	**310,359**	315,038	302,236	289,920	254,039
	$ 1,881,128	$ 1,585,716	$ 1,307,022	$ 1,170,704	$ 845,298

The following table shows the percentage distributions of loans by category as of December 31 for each of the last five years.

	December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Commercial	**43.7%**	45.0%	45.1%	43.8%	39.0%
Leases	**18.9%**	12.4%	6.9%	7.5%	7.4%
Real estate mortgage	**16.0%**	17.2%	19.7%	18.6%	21.1%
Real estate construction	**4.9%**	5.5%	5.2%	5.3%	2.4%
Home equity and consumer installment	**16.5%**	19.9%	23.1%	24.8%	30.1%
	100.0%	100.0%	100.0%	100.0%	100.0%

At December 31, 2007, there were no concentrations of loans exceeding 10% of total loans outstanding other than loans that are secured by real estate. Loan concentrations are considered to exist when there are amounts

Table of Contents

loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other related conditions.

The following table sets forth certain categories of loans as of December 31, 2007, in terms of contractual maturity date:

	Within one year	After one but within five years	After five years	Total
		(in thousands)		
Types of Loans:				
Commercial	$ 116,416	$ 128,647	$ 576,558	$ 821,621
Real Estate construction	49,644	12,157	29,905	91,706
Total	$ 166,060	$ 140,804	$ 606,463	$ 913,327
Amount of such loans with:				
Predetermined rates	$ 35,143	$ 110,016	$ 77,476	$ 222,635
Floating or adjustable rates	130,917	30,788	528,987	690,692