LAKELAND BANCORP INC
Form 10-K
March 15, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

FOR THE FISCAL YEAR ENDED DECEMBER 31 2012

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012.**

¨ **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	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
250 Oak Ridge Road, Oak Ridge, New Jersey	**07438**
(Address of principal executive offices)	**(Zip code)**

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, no par value	**NASDAQ**

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller Reporting Company ¨

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

As of June 30, 2012, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $256,000,000, 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, 2013, was 29,800,471.

DOCUMENTS INCORPORATED BY REFERENCE:

Lakeland Bancorp, Inc s. Proxy Statement for its 2013 Annual Meeting of Shareholders (Part III).

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LAKELAND BANCORP, INC.

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PART I

ITEM 1 Business.

GENERAL

Lakeland Bancorp, Inc. (the Company or Lakeland Bancorp) is a bank holding company headquartered in Oak Ridge, New Jersey. The Company was organized in March of 1989 and commenced operations on May 19, 1989, upon the consummation of the acquisition of all of the outstanding stock of Lakeland Bank, formerly named Lakeland State Bank (Lakeland or the Bank or Lakeland Bank). Through Lakeland, the Company operates 46 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 shown substantial growth through a combination of organic growth and acquisitions. Since 1998, Lakeland has opened nineteen new branch offices and the Company has also 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.

Lakeland Bancorp and Somerset Hills Bancorp, the parent company of Somerset Hills Bank, entered into an Agreement and Plan of Merger, dated as of January 28, 2013 (the Merger Agreement), pursuant to which Somerset Hills Bancorp will be merged with and into Lakeland Bancorp, with Lakeland Bancorp as the surviving bank holding company. Somerset Hills Bank operates six banking offices in New Jersey: its main office, located in Somerset County, four branch offices in Morris County and one branch office in Union County. At December 31, 2012, Somerset Hills Bancorp had consolidated total assets, total loans, total deposits and total stockholders equity of $368.9 million, $241.9 million, $320.2 million and $41.8 million, respectively.

The Merger Agreement provides that the shareholders of Somerset Hills Bancorp will receive, at their election, for each outstanding share of Somerset Hills Bancorp common stock that they own at the effective time of the merger, either 1.1962 shares of Lakeland Bancorp common stock or $12.00 in cash, subject to proration as described in the Merger Agreement, so that 90% of the aggregate merger consideration will be shares of Lakeland Bancorp common stock and 10% will be cash. The Merger Agreement provides that immediately after the merger of Somerset Hills Bancorp into Lakeland Bancorp, Somerset Hills Bank will merger with and into Lakeland Bank, with Lakeland Bank as the surviving bank. The mergers are subject to receipt of various regulatory approvals, the approval by the shareholders of Somerset Hills Bancorp of the Merger Agreement and the merger of Somerset Hills Bancorp into Lakeland Bancorp, and the approval by the shareholders of Lakeland Bancorp of the authorization of the issuance of the shares of Lakeland Bancorp common stock issuable in the merger with Somerset Hills Bancorp. The closing of the mergers is expected to occur in the second or third quarters of 2013.

At December 31, 2012, Lakeland Bancorp had total consolidated assets of $2.9 billion, total consolidated deposits of $2.4 billion, total consolidated loans, net of the allowance for loan and lease losses, of $2.1 billion and total consolidated stockholders equity of $280.9 million.

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

Unless otherwise indicated, all weighted average, actual shares and per share information contained in this Annual Report on Form 10-K have been adjusted retroactively for the effect of stock dividends, including the Company s 5% stock dividend which was distributed on April 16, 2012.

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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, mortgage loans and merchant credit card services. In addition to commercial real estate loans, Lakeland makes commercial and industrial loans, which are not always secured by real estate. These types of loans can diversify the Company s exposure in a depressed real estate market. Lakeland s 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 loan department provides commercial borrowers with another lending alternative.

Depository products include demand deposits, as well as savings, money market and time accounts. The Company also offers wire transfer, internet banking, mobile banking and night depository services to the business community and municipal relationships. In addition, Lakeland offers cash management services, such as remote capture of deposits and overnight sweep repurchase agreements.

Consumer Banking

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

Other Services

Investment and advisory services for individuals and businesses are also available.

Competition

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

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

The Company expects that competition will continue in the future.

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.

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Employees

At December 31, 2012, the Company had 522 full-time equivalent employees. None of these employees is covered by a collective bargaining agreement. The Company considers relations with its employees to be good.

SUPERVISION AND REGULATION

General

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

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

The Holding Company Act

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

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

If the proposed mergers with Somerset Hills Bancorp and Somerset Hills Bank are completed, the Company will acquire the mortgage banking subsidiary of Somerset Hills Bank and Somerset Hills Bank s 50% interest in a title insurance agency joint venture.

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

Regulation of Bank Subsidiaries

There are various legal limitations, including Sections 23A and 23B of the Federal Reserve Act, which govern the extent to which a bank subsidiary may finance or otherwise supply funds to its holding company or its holding company s non-bank subsidiaries. Under federal law, no bank subsidiary may, subject to certain limited

exceptions, make loans or extensions of credit to, or investments in the securities of, its parent or the non-bank subsidiaries of its parent (other than direct subsidiaries of such bank which are not financial subsidiaries) or take their securities as collateral for loans to any borrower. Each bank subsidiary is also subject to collateral security requirements for any loans or extensions of credit permitted by such exceptions.

Commitments to Affiliated Institutions

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

Interstate Banking

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits bank holding companies to acquire banks in states other than their home state, regardless of applicable state law. New Jersey enacted legislation to authorize interstate banking and branching and the entry into New Jersey of foreign country banks. New Jersey did not authorize de novo branching into the state. However, under federal law, federal savings banks, which meet certain conditions, may branch de novo into a state, regardless of state law. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) removes the restrictions on interstate branching contained in the Riegle-Neal Act, and allows national banks and state banks to establish branches in any state if, under the laws of the state in which the branch is to be located, a state bank chartered by that state would be permitted to establish the branch.

Gramm-Leach-Bliley Act of 1999

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

- allows bank holding companies meeting management, capital, and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than previously was permissible, including insurance underwriting and making merchant banking investments in commercial and financial companies; if a bank holding company elects to become a financial holding company, it files a certification, effective in 30 days, and thereafter may engage in certain financial activities without further approvals;
- 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 the Treasury, in conjunction with other bank regulators, was authorized to issue regulations that provide for minimum standards with respect to customer identification at the time new accounts are opened.

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

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

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

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

Sarbanes-Oxley Act of 2002

On July 30, 2002, the Sarbanes-Oxley Act of 2002 (the SOA) was signed into law. 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.

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The SOA addresses, among other matters:

- audit committees for all reporting companies;
- certification of financial statements by the chief executive officer and the chief financial officer;
- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;
- a prohibition on insider trading during pension plan black out periods;
- disclosure of off-balance sheet transactions;
- a prohibition on personal loans to directors and officers (other than loans made by an insured depository institution (as defined in the Federal Deposit Insurance Act), if the loan is subject to the insider lending restrictions of section 22(h) of the Federal Reserve Act);
- expedited filing requirements for Form 4 s;
- disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;
- real time filing of periodic reports;
- the formation of a public accounting oversight board;
- auditor independence; and
- various increased criminal penalties for violations of the securities laws.

The 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;

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- 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.

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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 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.

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, 2012, the Company s Tier 1 capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio were 11.52% and 12.77%, 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 8.62% at December 31, 2012.

Under FDICIA, federal banking agencies have established certain additional minimum levels of capital. 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.

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, 2012, Lakeland met all regulatory requirements for classification as well capitalized under the regulatory framework.

Additional Regulation of Capital

The federal regulatory authorities risk-based capital guidelines are based upon the 1988 capital accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies and regulations to which they apply. Actions of the Committee have no direct effect on banks in participating countries. In 2004, the Basel Committee published a new capital accord (Basel II) to replace Basel I. Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures. The Company is not required to comply with the advanced approaches of Basel II.

In 2009, the United States Treasury Department issued a policy statement (the Treasury Policy Statement) entitled Principles for Reforming the U.S. and International Regulatory Capital Framework for Banking Firms, which contemplates changes to the existing regulatory capital regime involving substantial revisions to major parts of the Basel I and Basel II capital frameworks and affecting all regulated banking organizations. The Treasury Policy Statement calls for, among other things, higher and stronger capital requirements for all banking firms, with changes to the regulatory capital framework to be phased in over a period of several years.

On December 17, 2009, the Basel Committee issued a set of proposals (the 2009 Capital Proposals) that would significantly revise the definitions of Tier 1 capital and Tier 2 capital. Among other things, the 2009

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Capital Proposals would re-emphasize that common equity is the predominant component of Tier 1 capital. Concurrently with the release of the 2009 Capital Proposals, the Basel Committee also released a set of proposals related to liquidity risk exposure (the 2009 Liquidity Proposals). The 2009 Liquidity Proposals include the implementation of (i) a liquidity coverage ratio or LCR, designed to ensure that a bank maintains an adequate level of unencumbered, high-quality assets sufficient to meet the bank s liquidity needs over a 30-day time horizon under an acute liquidity stress scenario and (ii) a net stable funding ratio or NSFR, designed to promote more medium and long-term funding of the assets and activities of banks over a one-year time horizon.

The Dodd-Frank Act includes certain provisions, often referred to as the Collins Amendment, concerning the capital requirements of the United States banking regulators. These provisions are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued by a company, such as Lakeland Bancorp, with total consolidated assets of less than $15 billion before May 19, 2010 and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The banking regulators must develop regulations setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations. The banking regulators also must seek to make capital standards countercyclical so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction. See The Dodd-Frank Act.

In December 2010 and January 2011, the Basel Committee published the final texts of reforms on capital and liquidity generally referred to as Basel III. Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulations applicable to other banks in the United States, including Lakeland. In June 2012, the U.S. banking regulators released notices of proposed rulemaking that would revise regulatory capital rules for U.S. banking organizations. In November 2012, U.S. banking regulators indicated that the implementation of the proposed rules would not become effective on January 1, 2013, as they are continuing to review various views expressed during the comment period. In January 2013, the Basel Committee revised the standard for the Liquidity Coverage Ratio (LCR), including increasing the range of eligible assets that can be held as part of a required liquidity buffer. It is not possible to predict when or in what form final regulations may be adopted.

For banks in the United States, among the most significant provisions of Basel III concerning capital (as proposed prior to the delay in implementation) are the following:

- A minimum ratio of common equity to risk-weighted assets reaching 4.5%, plus an additional 2.5% as a capital conservation buffer, by 2019 after a phase-in period.
- A minimum ratio of Tier 1 capital to risk-weighted assets reaching 6.0% by 2019 after a phase-in period.
- A minimum ratio of total capital to risk-weighted assets, plus the additional 2.5% capital conservation buffer, reaching 10.5% by 2019 after a phase-in period.
- An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice.
- Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone.
- Deduction from common equity of deferred tax assets that depend on future profitability to be realized.
- Increased capital requirements for counterparty credit risk relating to OTC derivatives, repos and securities financing activities.

For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement such that the instrument must be written off or converted to common equity if a trigger event occurs, either pursuant to applicable law or at the direction of the banking regulator. A trigger event is an event under which the banking entity would become nonviable without the write-off or conversion, or without an injection of capital from the public sector. The issuer must maintain authorization to issue the requisite shares of common equity if conversion were required.

The Basel III provisions on liquidity include complex criteria establishing the LCR and NSFR. Although Basel III is described as a final text, it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by United States banking regulators, including decisions as to whether and to what extent it will apply to United States banks that are not large, internationally active banks.

Federal Deposit Insurance and Premiums

Substantially all of the deposits of Lakeland 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 from at least $100,000 to at least $250,000. As mandated by Section 343 of the Dodd-Frank Act, the FDIC had adopted rules providing for temporary unlimited deposit insurance for traditional noninterest-bearing transaction accounts and IOLTA accounts beginning December 31, 2010, but these temporary rules expired December 31, 2012. As a result, as of January 1, 2013, (i) noninterest-bearing transaction accounts are no longer insured separately from depositors other accounts at the same FDIC-insured depository institution, and such accounts will instead be added to any of a depositor s other accounts in the applicable ownership category, and the aggregate balance insured up to at least the standard maximum deposit insurance amount of $250,000 per depositor at each separately chartered FDIC-insured depository institution, and (ii) funds deposited in IOLTAs will no longer be insured under Section 343 of the Dodd-Frank Act, but because IOLTAs are fiduciary accounts, they generally qualify for pass-through coverage on a per-client basis.

On November 12, 2009, the FDIC adopted the final rule which required insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. On December 30, 2009, the Company remitted an FDIC prepayment in the amount of $18.0 million. An institution s prepaid assessment was based on the total base assessment rate that the institution paid for the third quarter of 2009, adjusted quarterly by an estimated annual growth rate of 5% through the end of 2012, plus, for 2011 and 2012, an increase in the total base assessment rate on September 30, 2009 by an annualized three basis points. Any prepaid assessment in excess of the amounts that are subsequently determined to be actually due to the FDIC by June 30, 2013, will be returned to the institution at that time.

In November 2010, the FDIC approved a rule to change the assessment base from adjusted domestic deposits to average consolidated total assets minus average tangible equity, as required by the Dodd-Frank Act. These new assessment rates began in the second quarter of 2011 and were paid at the end of September 2011. Since the new base is larger than the current base, the FDIC s rule lowered the total base assessment rates to between 2.5 and 9 basis points for banks in the lowest risk category, and 30 to 45 basis points for banks in the highest risk category. The Company paid $2.2 million in total FDIC assessments in 2012, compared to $2.8 million in 2011.

Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (DRR), that is, the ratio of the DIF to insured deposits. The FDIC has adopted a plan under which it will meet the statutory minimum DRR of 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset.

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In addition to deposit insurance assessments, the FDIC is required to continue to collect from institutions payments for the servicing of obligations of the Financing Corporation (FICO) that were issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding. Lakeland paid a FICO premium of approximately $170,000 in 2012 and expects to pay a similar premium in 2013.

The Dodd-Frank Act

The Dodd-Frank Act, which was signed into law on July 21, 2010, will continue to have a broad impact on the financial services industry as a result of significant regulatory and compliance changes, including, among other things, (i) enhanced resolution authority over troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector. Many of the requirements called for in the Dodd-Frank Act will be implemented over time and most will be subject to implementing regulations over the course of several years.

The following is a summary of certain provisions of the Dodd-Frank Act:

Minimum Capital Requirements. The Dodd-Frank Act requires new capital rules and the application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies. In addition to making bank holding companies subject to the same capital requirements as their bank subsidiaries, these provisions (often referred to as the Collins Amendment to the Dodd-Frank Act) were also intended to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued by a bank holding company such as Lakeland Bancorp (with total consolidated assets between $500 million and $15 billion) before May 19, 2010 and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. On June 14, 2011, the federal banking agencies published a final rule regarding minimum leverage and risk-based capital requirements for banks and bank holding companies consistent with the requirements of the Dodd-Frank Act. The Dodd-Frank Act also requires banking regulators to seek to make capital standards countercyclical, so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction.

Deposit Insurance. The Dodd-Frank Act makes permanent the $250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act also revise the assessment base against which an insured depository institution s deposit insurance premiums paid to the Deposit Insurance Fund (DIF) will be calculated. Under the amendments, the assessment base will no longer be the institution s deposit base, but rather its average consolidated total assets less its average tangible equity during the assessment period. Additionally, the Dodd-Frank Act makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. In December 2010, the FDIC increased the designated reserve ratio to 2.0 percent.

Shareholder Votes. The Dodd-Frank Act requires publicly traded companies like Lakeland Bancorp to give shareholders a non-binding vote on executive compensation and so-called golden parachute payments in certain circumstances. The Dodd-Frank Act also authorizes the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company s proxy materials.

Transactions with Affiliates. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of covered transactions and increasing the amount of time for which collateral requirements regarding covered transactions must be maintained. These requirements became effective during 2011.

Transactions with Insiders. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution s board of directors. These requirements became effective during 2011.

Enhanced Lending Limits. The Dodd-Frank Act strengthened the previous limits on a depository institution s credit exposure to one borrower which limited a depository institution s ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expanded the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.

Compensation Practices. The Dodd-Frank Act provides that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other covered financial institution that provides an insider or other employee with excessive compensation or compensation that gives rise to excessive risk or could lead to a material financial loss to such firm. In June 2010, prior to the Dodd-Frank Act, the bank regulatory agencies promulgated the *Interagency Guidance on Sound Incentive Compensation Policies*, which sets forth three key principles concerning incentive compensation arrangements:

such arrangements should provide employees incentives that balance risk and financial results in a manner that does not encourage employees to expose the financial institution to imprudent risks;

such arrangements should be compatible with effective controls and risk management; and

such arrangements should be supported by strong corporate governance with effective and active oversight by the financial institution s board of directors.

Together, the Dodd-Frank Act and the recent guidance from the bank regulatory agencies on compensation may impact the Company s compensation practices.

The Consumer Financial Protection Bureau (Bureau). The Dodd-Frank Act created the Bureau within the Federal Reserve. The Bureau is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The Bureau has rulemaking authority over many of the statutes governing products and services offered to bank consumers. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the Bureau and state attorneys general are permitted to enforce consumer protection rules adopted by the Bureau against state-chartered institutions. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Institutions with $10 billion or less in assets, such as the Bank, will continue to be examined for compliance with the consumer laws by their primary bank regulators.

De Novo Banking. The Dodd-Frank Act allows de novo interstate branching by banks.

Many aspects of the Dodd-Frank Act still remain subject to rulemaking by various regulatory agencies and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. The elimination of the prohibition on the payment of interest on demand deposits could materially increase our interest expense, depending on our competitors responses. Provisions in the legislation that require revisions to the capital requirements of the Company and the Bank could require the Company and the Bank to seek additional sources of capital in the future.

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Proposed Legislation

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

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

ITEM 1A Risk Factors.

Our business, financial condition, operating results and cash flows can be affected by a number of factors, including, but not limited to, those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

Recently enacted legislation, particularly the Dodd-Frank Act, could materially and adversely affect us by increasing compliance costs, heightening our risk of noncompliance with applicable regulations, and changing the competitive landscape in the banking industry.

From time to time, the U.S. Congress and state legislatures consider changing laws and enact new laws to further regulate the financial services industry. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, was signed into law. The Dodd-Frank Act has resulted in sweeping changes in the regulation of financial institutions. As discussed in the section herein entitled Business-Supervision and Regulation, the Dodd-Frank Act contains numerous provisions that affect all banks and bank holding companies. Many of the provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, the effects of which are not yet known. Although we cannot predict the specific impact and long-term effects that the Dodd-Frank Act and the regulations promulgated thereunder will have on us and our prospects, our target markets and the financial industry more generally, we believe that the Dodd-Frank Act and the regulations promulgated thereunder are likely to impose additional administrative and regulatory burdens that will obligate us to incur additional expenses and will adversely affect our margins and profitability. For example, the elimination of the prohibition on the payment of interest on demand deposits could materially increase our interest expense, depending on our competitors responses. Provisions in the legislation that require revisions to the capital requirements of the Company and the Bank could require the Company and the Bank to seek additional sources of capital in the future. More stringent consumer protection regulations could materially and adversely affect our profitability. We will also have a heightened risk of noncompliance with all of the additional regulations. Finally, the impact of some of these new regulations is not known and may affect our ability to compete long-term with larger competitors.

The Federal Reserve s repeal of the prohibition against payment of interest on demand deposits may increase competition for such deposits and ultimately increase interest expense.

A major portion of our net income comes from our interest rate spread, which is the difference between the interest rates paid by us on amounts used to fund assets and the interest rates and fees we receive on our interest-earning assets. Our interest-earning assets include outstanding loans extended to our customers and securities held in our investment portfolio. We fund assets using deposits and other borrowings.

In July 2011, Regulation Q, which had prohibited the payment of interest on demand deposits by institutions that are member banks of the Federal Reserve System, was repealed. As a result, member banks and thrifts are

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now permitted to offer interest-bearing demand deposit accounts to commercial customers, which could result in increased competition for Lakeland for deposits. If we decide to pay interest on demand accounts in the face of such competition, we would expect our interest expense to increase.

The Company and the Bank may be subject to more stringent capital and liquidity requirements.

The Dodd-Frank Act also imposes more stringent capital requirements on bank holding companies such as Lakeland Bancorp by, among other things, imposing leverage ratios on bank holding companies and prohibiting new trust preferred issuances from counting as Tier I capital. These restrictions will limit our future capital strategies. Under the Dodd-Frank Act, our currently outstanding trust preferred securities will continue to count as Tier I capital, but we will be unable to issue replacement or additional trust preferred securities which would count as Tier I capital.

While U.S. banking regulators have postponed the implementation of the Basel III rules, which would generally be applicable to institutions with greater than $50 billion in assets, we expect that these rules will eventually be implemented in the U.S. In addition, banking regulators could implement additional changes to the capital adequacy standards applicable to financial institutions with $50 billion or less in assets, such as the Company and Lakeland, in light of Basel III.

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.

Recent negative developments in the financial services industry and U.S. and global credit markets may adversely impact our operations and results.

The general economic downturn during the past few years, including a decline in the value of the collateral supporting loans, has resulted in the deterioration of loan portfolio performances at many institutions. The competition for our deposits has increased significantly due to liquidity concerns at many of these same institutions. Stock prices of bank holding companies, like ours, have been negatively affected by the current condition of the financial markets, as has our ability, if needed, to raise capital or borrow in the debt markets compared to prior years. While economic growth may have resumed recently, the rate of this growth has been very slow and unemployment remains at a high level. As a result, recent legislation, such as the Dodd-Frank Act, will require new regulations regarding lending and funding practices and liquidity standards, and financial institution regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement actions. Negative developments in the financial services industry and the impact of new legislation, including The Dodd-Frank Act, in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance.

The downgrade of the U.S. credit rating and Europe s debt crisis could have a material adverse effect on our business, financial condition and liquidity.

Standard & Poor s lowered its long term sovereign credit rating on the United States of America from AAA to AA+ on August 5, 2011. A further downgrade or a downgrade by other rating agencies could have a material adverse impact on financial markets and economic conditions in the United States and worldwide. Any such adverse impact could have a material adverse effect on our liquidity, financial condition and results of operations. Many of our investment securities are issued by and some of our loans are made to U.S. government agencies and U.S. government sponsored entities.

In addition, the possibility that certain European Union (EU) member states will default on their debt obligations have negatively impacted economic conditions and global markets. The continued uncertainty over

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the outcome of international and the EU s financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. The negative impact on economic conditions and global markets could also have a material adverse effect on our liquidity, financial condition and results of operations.

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

Our ability to obtain funding from the Federal Home Loan Bank or through our overnight federal funds lines with other banks could be negatively affected if we experienced a substantial deterioration in our financial condition or if such funding became restricted due to a further deterioration in the financial markets. While we have a contingency funds management plan to address such a situation if it were to occur (such plan includes deposit promotions, the sale of securities and the curtailment of loan growth, if necessary), a significant decrease in our ability to borrow funds could adversely affect our liquidity.

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

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

- inflation or deflation
- excess growth or recession;
- a rise or fall in unemployment;
- tightening or expansion of the money supply;
- domestic and international disorder; 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.

The Company may incur impairment to goodwill.

We review our goodwill at least annually. Significant negative industry or economic trends, including the lack of recovery in the market price of our common stock price, reduced estimates of future cash flows or disruptions to our businesses, could indicate that goodwill might be impaired. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. We operate in a competitive environment and projections of future operating results and cash flows may vary significantly from actual results. Additionally, if our analysis results in an impairment to our goodwill, we would be required to record a non-cash charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such charge could have a material adverse effect on our results of operations and our stock price.

The extensive regulation and supervision to which we are subject impose substantial restrictions on our business.

The Company, Lakeland and certain non-bank subsidiaries are subject to extensive regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole. Such laws are not designed to protect our shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Lakeland is also subject to a number of laws which, among other things, govern its lending practices and require the Bank to establish and maintain comprehensive programs relating to anti-money laundering and customer identification. The United States Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on our business, financial condition and results of operations.

Current levels of volatility in the capital markets are unprecedented and may adversely impact our operations and results.

The capital markets have been experiencing unprecedented volatility for the past several years. Such negative developments and disruptions have resulted in uncertainty in the financial markets and a general economic downturn. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets compared to prior years. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our business, financial condition and results of operations or our ability to access capital.

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 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. Future increases 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 further 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.

Further deterioration in the real estate market, particularly in New Jersey, could adversely affect our business. As real estate values in New Jersey decline, our ability to recover on defaulted loans by selling the underlying real estate is reduced, which increases the possibility that we may suffer losses on defaulted loans.

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

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

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

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

Declines in value may adversely impact our investment portfolio.

As of December 31, 2012, the Company had approximately $393.7 million and $96.9 million in available for sale and held to maturity investment securities, respectively. We may be required to record impairment charges on our investment securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio in future periods. If an impairment charge is significant enough it could affect the ability of Lakeland to upstream dividends to us, which could have a material adverse effect on our liquidity and our ability to pay dividends to shareholders and could also negatively impact our regulatory capital ratios.

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Concern of customers over deposit insurance may cause a decrease in deposits.

With recent increased concerns about bank failures, customers increasingly are concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits in an effort to ensure that the amount they have on deposit with their bank is fully insured. Decreases in deposits may adversely affect our funding costs and net income.

Increases in FDIC premiums could have a material adverse effect on our future earnings.

The FDIC insures deposits at FDIC insured financial institutions, including Lakeland Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. The Dodd-Frank Act amended the Federal Deposit Insurance Act by changing the base against which an insured depository institution s deposit insurance assessment is calculated. These amendments require the appropriate assessment base to be calculated as the institution s average consolidated total assets minus average tangible equity, rather than the institution s deposits. These developments may cause an increase in Lakeland s future assessments. In addition, the FDIC may be required to increase assessment rates and levy special assessments on Lakeland and other financial institutions in the future, which could have a material adverse effect on Lakeland s future earnings.

A breach of information security could negatively affect our operations, earnings and reputation.

Increasingly, we depend upon data processing, communication and information exchange on a variety of computing platforms and networks, and over the internet. We cannot be certain all our systems are entirely free from vulnerability to attack, despite safeguards we have instituted including independent third party testing. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. Disruptions to our vendors systems may arise from events that are wholly or partially beyond our vendors control (including, for example, computer viruses or electrical or telecommunications outages). The occurrence of system failures or security breaches, despite the controls we have instituted, could result in damage to our reputation, increased regulatory scrutiny and financial loss or costs to us.

Any unforeseen transition issues that arise in connection with upgrades to our computer hardware and software systems could adversely affect our business.

In the normal course of business, we upgrade certain hardware and software systems critical to our core banking operations and financial reporting. While we expect these changes to go smoothly, no assurances can be given that unforeseen issues will not arise. Depending on the nature of those issues, if any, and the time and resources necessary to correct or resolve them, our business could be adversely affected.

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

If our proposed acquisition of Somerset Hills Bancorp and Somerset Hills Bank is completed, and/or we make additional 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.

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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. The Company completed construction of a new training and operations center in Milton, New Jersey in mid-2012. The Bank purchased an assignment of an existing lease for this facility which expires on February 28, 2016, and contains five (5) five-year options to renew, at the Bank s discretion, at fixed base rent amounts. To the extent that the Bank exercises all of the options, the lease will expire on February 28, 2041.

The Company operates 46 banking locations in Passaic, Morris, Sussex, Bergen, Essex and Warren Counties, New Jersey. The following chart provides information about the Company s leased banking locations:

Location	Lease Expiration Date
Bristol Glen	October 31, 2013
Caldwell	September 30, 2024
Carlstadt	July 15, 2016
Cedar Crest	August 19, 2016
Hackensack	March 31, 2018
Hampton	September 30, 2019
Little Falls	November 30, 2015
Madison Avenue	April 30, 2017
North Haledon	June 30, 2017
Park Ridge	December 31, 2014
Pompton Plains	April 30, 2015
Ringwood	February 28, 2018
Rochelle Park	January 12, 2019
Sparta	August 31, 2032
Sussex/Wantage	June 19, 2017
Vernon	September 30, 2027
Wantage	October 31, 2016
Wayne	May 31, 2028
Wharton	July 31, 2015
Woodland Commons	August 31, 2016
West Caldwell	March 31, 2029

The Company has also entered into leases for two additional locations for administrative purposes, one in Wyckoff, New Jersey (this lease expires on February 28, 2014) and the other in Oak Ridge, New Jersey (this lease expires on January 31, 2014).

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

ITEM 3 Legal Proceedings.

On February 15, 2013, the Company was served with a Civil Action Summons and Class Action Complaint that was filed in the Superior Court of New Jersey, Chancery Division, Somerset County. The complaint states that the plaintiff is bringing the class action on behalf of the public stockholders of Somerset Hills Bancorp against the Board of Directors of Somerset Hills for their alleged breach of fiduciary duties arising out of the Agreement and Plan of Merger, dated as of January 28, 2013, by and between the Company and Somerset Hills Bancorp. The complaint alleges that the Company has aided and abetted the individual defendants in their alleged breaches of fiduciary duties. The Company intends to vigorously defend against these claims.

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

ITEM 3A Executive Officers of the Registrant.

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

Name and Age	Officer of the Company Since	Position with the Company, its Subsidiary Banks, and Business Experience
Thomas J. Shara Age 55	2008	President and CEO, Lakeland Bancorp, Inc. (April 2, 2008 Present); President (April 2, 2008 January 29, 2013) and CEO (April 2, 2008 Present), Lakeland Bank; President and Chief Credit Officer (May 2007 April 1, 2008) and Executive Vice President and Senior Commercial Banking Officer (February 2006 May 2007), TD Banknorth, N.A. s Mid-Atlantic Division; Executive Vice President and Senior Loan Officer, Hudson United Bancorp and Hudson United Bank (prior years to February 2006)
Robert A. Vandenbergh Age 61	1999	Senior Executive Vice President and Chief Operating Officer of the Company (October 2008 Present) and of Lakeland Bank (October 2008 January 29, 2013); President of Lakeland Bank (January 29, 2013 Present); Senior Executive Vice President and Chief Lending Officer of the Company (December 2006 October 2008); Executive Vice President and Chief Lending Officer of the Company (October 1999 December 2006)
Joseph F. Hurley Age 62	1999	Executive Vice President and Chief Financial Officer of the Company (November 1999 Present)
Jeffrey J. Buonforte Age 61	1999	Executive Vice President and Senior Government Banking/Business Services Officer of the Company (June 2009 Present); Executive Vice President and Chief Retail Officer of the Company (November 1999 June 2009)
Louis E. Luddecke Age 66	1999	Executive Vice President and Chief Operations Officer of the Company (October 1999 Present)
David S. Yanagisawa Age 61	2008	Executive Vice President and Chief Lending Officer of the Company (November 2008 Present); Senior Vice President, TD Banknorth, N.A. (February 2006 November 2008); Hudson United Bank, Senior Vice President (1997 February 2006)
James R. Noonan Age 61	2003	Executive Vice President and Chief Credit Officer of the Company (December 2003 Present)
Ronald E. Schwarz Age 57	2009	Executive Vice President and Chief Retail Officer of the Company (June 2009 Present); Executive Vice President and Market Executive of Sovereign Bank (June 2006 June 2009); Senior Vice President and Director of Retail Banking of Independence Community Bank (June 1999 June 2006)

Name and Age	Officer of the Company Since	Position with the Company, its Subsidiary Banks, and Business Experience
Timothy J. Matteson, Esq. Age 43	2008	Executive Vice President and General Counsel of the Company (March 2012 to Present); Senior Vice President and General Counsel of the Company (September 2008 March 2012); Assistant General Counsel, Israel Discount Bank (November 2007 September 2008); Senior Attorney and Senior Vice President, TD Banknorth, N.A. (February 2006 May 2007); General Counsel and Senior Vice President, Hudson United Bancorp and Hudson United Bank (January 2005 February 2006)

ITEM 4 MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

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

Shares of the common stock of Lakeland Bancorp, Inc. have been traded under the symbol LBAI on the NASDAQ Global Select Market (or the NASDAQ National Market) since February 22, 2000 and in the over the counter market prior to that date. As of December 31, 2012, there were 3,227 shareholders of record of the common stock. The following table sets forth the range of the high and low daily closing prices of the common stock as provided by NASDAQ and dividends declared for the periods presented. All information is adjusted for the Company s 5% stock dividends distributed on April 16, 2012 and February 16, 2011.

	High	Low	Dividends Declared
Year ended December 31, 2012			
First Quarter	$ 10.21	$ 8.33	$ 0.057
Second Quarter	10.52	8.75	0.060
Third Quarter	10.97	9.09	0.060
Fourth Quarter	10.77	8.45	0.070

	High	Low	Dividends Declared
Year ended December 31, 2011			
First Quarter	$ 10.48	$ 8.92	$ 0.054
Second Quarter	10.95	8.71	0.057
Third Quarter	10.44	6.90	0.057
Fourth Quarter	9.30	6.90	0.057

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 $219.0 million was available for the payment of dividends from Lakeland to the Company as of December 31, 2012.

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.

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Performance Graph

The following chart compares the Company s cumulative total shareholder return (on a dividend reinvested basis) over the past five years with the NASDAQ Market Index and the Peer Group Index. The Peer Group Index is the Zacks (formerly Morningstar) Regional Northeast Banks Index, which consists of 158 Regional Northeast Banks.

Company/Market/Peer Group	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Lakeland Bancorp, Inc.	100.00	100.33	59.19	103.99	87.86	111.75
NASDAQ Market Index	100.00	60.02	87.25	103.08	102.27	120.42
Zacks Regional Northeast Banks	100.00	70.02	66.58	78.30	73.30	96.70

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ITEM 6 Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

The following should be read in conjunction with Management s Discussion and Analysis and Results of Operations and the Company s consolidated financial statements included in item 7 and 8 of this report. The selective financial data set forth below has been derived from the Company s audited consolidated financial statements.

	2012	2011	2010	2009	2008
		(in thousands except per share data)			
Years Ended December 31					
Interest income	**$ 110,959**	$ 117,524	$ 125,649	$ 133,822	$ 143,937
Interest expense	**15,446**	20,111	25,895	40,443	55,358
Net interest income	**95,513**	97,413	99,754	93,379	88,579
Provision for loan and lease losses	**14,907**	18,816	19,281	51,615	23,730
Noninterest income excluding gains on investment securities	**17,856**	16,888	17,654	15,952	17,558
Gains on sales of investment securities	**1,049**	1,229	1,742	3,845	53
Other than temporary impairment losses on equity securities			(128)	(940)	
Noninterest expenses	**67,673**	68,151	70,405	73,794	60,071
Income (loss) before income taxes (benefit)	**31,838**	28,563	29,336	(13,173)	22,389
Income tax provision (benefit)	**10,096**	8,712	10,125	(7,777)	7,224
Net income (loss)	**21,742**	19,851	19,211	(5,396)	15,165
Dividends on preferred stock and accretion	**620**	2,167	3,987	3,194	
Net income (loss) available to common shareholders	**$ 21,122**	$ 17,684	$ 15,224	$ (8,590)	$ 15,165
Per-Share Data(1)					
Weighted average shares outstanding:					
Basic	**27,619**	26,572	26,352	26,099	25,870
Diluted	**27,692**	26,681	26,384	26,099	25,963
Earnings (loss) per share:					
Basic	**$ 0.76**	$ 0.66	$ 0.57	($ 0.33)	$ 0.58
Diluted	**$ 0.76**	$ 0.66	$ 0.57	($ 0.33)	$ 0.58
Cash dividend per common share	**$ 0.25**	$ 0.23	$ 0.19	$ 0.27	$ 0.36
Book value per common share	**$ 9.45**	$ 8.99	$ 8.40	$ 8.05	$ 8.46
Tangible book value per common share(2)	**$ 6.52**	$ 5.75	$ 5.10	$ 4.68	$ 5.02
At December 31					
Investment securities available for sale and other	**$ 399,092**	$ 471,944	$ 487,107	$ 375,530	$ 282,174
Investment securities held to maturity	**96,925**	71,700	66,573	81,821	110,114
Loans and leases, net of deferred costs	**2,146,843**	2,041,575	2,014,617	2,017,035	2,034,831
Goodwill and other identifiable intangible assets	**87,111**	87,111	87,689	88,751	89,812
Total assets	**2,918,703**	2,825,950	2,792,674	2,723,968	2,642,625
Total deposits	**2,370,997**	2,249,653	2,195,889	2,157,187	2,056,133
Total core deposits	**2,067,205**	1,890,101	1,783,040	1,691,447	1,445,101
Term borrowings	**136,548**	232,322	272,322	223,222	288,222
Total stockholders equity	**280,867**	259,783	260,709	267,986	220,941
Performance ratios					
Return on Average Assets(3)	**0.77%**	0.71%	0.69%	NM	0.59%
Return on Average Common Equity(3)	**8.48%**	8.53%	8.70%	NM	6.99%
Return on Average Equity(3)	**8.42%**	7.79%	7.13%	NM	6.99%
Efficiency ratio(4)	**58.33%**	56.87%	56.40%	62.06%	54.72%
Net Interest Margin (tax equivalent basis)	**3.70%**	3.85%	3.95%	3.74%	3.79%
Loans to Deposits	**90.55%**	90.75%	91.74%	93.50%	98.96%

Capital ratios

Common Equity to Asset ratio	**9.62%**	8.54%	7.99%	7.78%	8.36%
Tangible common equity to tangible assets(2)	**6.84%**	5.63%	5.01%	4.68%	5.14%
Equity to Asset ratio	**9.62%**	9.19%	9.34%	9.84%	8.36%
Tier 1 leverage ratio	**8.62%**	8.33%	9.21%	9.44%	8.08%
Tier 1 risk-based capital ratio	**11.52%**	11.23%	12.43%	12.65%	10.24%
Total risk-based capital ratio	**12.77%**	13.39%	13.68%	13.90%	11.52%

(1) Restated for 5% stock dividends in 2012 and 2011.

(2) A non-GAAP financial measure. See Non-GAAP Financial Measures for a reconciliation of such measures to data calculated in accordance with generally accepted accounting principles.

(3) Ratios for 2009 are not meaningful (NM) and therefore not presented.

(4) Ratio represents non-interest expense, excluding other real estate expense, other repossessed asset expense, long-term debt prepayment fee, provision for unfunded lending commitments and core deposit amortization, as a percentage of total revenue (calculated on a tax equivalent basis), excluding gains (losses) on securities. Total revenue represents net interest income (calculated on a tax equivalent basis) plus non-interest income.

ITEM 7 Management s Discussion and Analysis of Financial Condition and Results of Operations

This section presents a review of Lakeland Bancorp, Inc. s consolidated results of operations and financial condition. You should read this section in conjunction with the selected consolidated financial data that is presented on the preceding page as well as the accompanying consolidated financial statements and notes to financial statements. As used in the following discussion, the term Company refers to Lakeland Bancorp, Inc. and Lakeland refers to the Company s wholly owned banking subsidiary Lakeland Bank.

Statements Regarding Forward-Looking Information

The information disclosed in this document includes various forward-looking statements that are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 with respect to credit quality (including delinquency trends and the allowance for loan and lease losses), corporate objectives, and other financial and business matters. The words anticipates, projects, intends, estimates, expects, believes, plans, may, will, should, could, and other similar expressions are intended to identify such forward-looking statemen Company cautions that these forward-looking statements are necessarily speculative and speak only as of the date made, and are subject to numerous assumptions, risks and uncertainties, all of which may change over time. Actual results could differ materially from such forward-looking statements.

In addition to the risk factors disclosed 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: changes in the financial services industry and the U.S. and global capital markets, changes in economic conditions nationally, regionally and in the Company s markets, the nature and timing of actions of the Federal Reserve Board and other regulators, the nature and timing of legislation affecting the financial services industry including but not limited to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, government intervention in the U.S. financial system, changes in levels of market interest rates, pricing pressures on loan and deposit products, credit risks of the Company s lending and leasing activities, customers acceptance of the Company s products and services and competition.

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.

Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company and Lakeland conform with accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates implicit in these financial statements are as follows. For additional accounting policies and detail, refer to Note 1 to the consolidated financial statements included in item 8 of this report.

Allowance for loan and lease losses. The allowance for loan and lease losses is established through a provision for loan and lease losses charged to expense. Loan principal considered to be uncollectible by management is charged against the allowance for loan and lease losses. The allowance is an amount that management believes will be adequate to absorb losses on existing loans and leases that may become

uncollectible based upon an evaluation of known and inherent risks in the loan and lease portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan and lease portfolio, overall portfolio quality, specific problem loans and leases, and current economic conditions which may affect the borrowers ability to pay. The evaluation also analyzes historical losses by loan and lease category, and considers the resulting loss rates when determining the reserves on current loan and lease total amounts. Loss estimates for specified problem loans and leases are also detailed. All of the factors considered in the analysis of the adequacy of the allowance for loan and lease losses may be subject to change. To the extent actual outcomes differ from management estimates, additional provisions for loan and lease losses may be required that would adversely impact earnings in future periods.

Loans and leases are considered impaired when, based on current information and events, it is probable that Lakeland will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is measured based on the present value of expected cash flows discounted at the loan s effective interest rate, 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. Most of Lakeland s impaired loans are collateral-dependent. Lakeland groups impaired commercial loans under $250,000 into a homogeneous pool and collectively evaluates them. Interest received on impaired loans and leases may be recorded as interest income. However, if management is not reasonably certain that an impaired loan and lease will be repaid in full, or if a specific time frame to resolve full collection cannot yet be reasonably determined, all payments received are recorded as reductions of principal.

Fair value measurements and fair value of financial instruments. Fair values of financial instruments are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, credit ratings and yield curves. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the market place as a result of the illiquid market specific to the type of security.

When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair value is below amortized cost, additional analysis is performed to determine whether an other-than-temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other-than-temporary impairment. The analysis considers (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company s results of operations and financial condition.

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

The Company evaluates tax positions that may be uncertain using a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order

for those tax positions to be recognized in the financial statements. Additional information regarding the Company s uncertain tax positions is set forth in Note 9 to the Notes to the audited Consolidated Financial Statements contained herein.

Goodwill and other identifiable intangible assets. The Company reviews goodwill for impairment annually as of November 30 or when circumstances indicate a potential for impairment at the reporting unit level. U.S. GAAP requires at least an annual review of the fair value of a reporting unit that has goodwill in order to determine if it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, including goodwill. If this qualitative test determines it is unlikely (less than 50% probability) the carrying value of the Reporting Unit is less than its fair value, then the company does not have to perform a Step One impairment test. If the probability is greater than 50%, a Step One goodwill impairment test is required. The Step One test compares the fair value of each reporting unit to the carrying value of its net assets, including goodwill. The Company has determined that it has one reporting unit, Community Banking.

The Company performed a qualitative analysis to determine whether the weight of evidence, the significance of all identified events and circumstances indicated a greater than 50% likelihood existed that the carrying value of the Reporting Unit exceeded its fair value and if a Step One Test would be required. The Company identified nine qualitative assessments that are relative to the banking industry and to the Company. These factors included macroeconomic factors, banking industry conditions, banking merger and acquisition trends, Lakeland s historical performance, the Company s stock price, the expected performance of Lakeland, the change of control premium of the Company versus its peers and other miscellaneous factors. After reviewing and weighting these factors, the Company, as well as a third party adviser, determined as of November 30, 2012 that there was a less than 50% probability that the fair value of the Company was less than its carrying amount. Therefore, no Step One test was required.

Financial Overview

The year ended December 31, 2012 represented a year of continued growth for the Company. As discussed in this management s discussion and analysis:

- Net income available to common shareholders increased $3.4 million or 19% to $21.1 million in 2012.

- Total loans increased $105.9 million, or 5%, from 2011 to 2012.

- Core deposits increased $177.1 million, or 9%, to $2.07 billion at year end 2012 and represented 87% of total deposits at December 31, 2012 compared to 84% at December 31, 2011.

- Total noninterest-bearing deposits of $498.1 million increased $48.5 million, or 11%, from 2011.

- The Company redeemed its remaining 19,000 shares of its Fixed Rate Cumulative Preferred Stock, Series A originally issued to the U.S. Department of the Treasury under the Troubled Asset Relief Program Capital Purchase Program (CPP). As a result of CPP repayments, dividends on preferred stock and accretion of the preferred stock discount declined from $2.2 million in 2011 to $620,000 in 2012. In 2012, the Company also repurchased the outstanding common stock warrant previously issued to the Treasury for a price of $2.8 million, completing the Company s participation in the Treasury s CPP.

- In September 2012, the Company received $25.0 million in net proceeds from common stock offerings which allowed the Company to increase its tangible equity. On October 7, 2012 the Company redeemed $25.8 million in subordinated debentures that had a coupon rate of 7.535%.

- Non-performing assets declined $21.7 million, or 43%, to $28.5 million at December 31, 2012 compared to December 31, 2011. The Allowance for Loan and Lease Losses at December 31, 2012 was 103% of non-performing loans compared to 58% at December 31,

2011.

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Net income for 2012 was $21.7 million compared to net income of $19.9 million in 2011. Net income available to common shareholders in 2012 was $21.1 million or $0.76 per diluted share compared to $17.7 million or $0.66 per diluted share in 2011.

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. The Company s net interest margin has been influenced by the current low interest rate environment. For more information about how interest rate change can influence the Company s net interest income and how the Company manages its net interest income, see Interest Rate Risk below. The Company s net interest margin can also be influenced by its level of non-performing loans. If non-performing loans decline, this could positively influence the Company s net interest margin.

Net interest income for 2012 on a tax-equivalent basis was $96.5 million, representing a decrease of $2.0 million, or 2%, from the $98.5 million earned in 2011. The decrease in net interest income primarily resulted from a 34 basis point decrease in the yield on interest-earning assets, which was partially offset by a 22 basis point decline in the cost of interest-bearing liabilities. The net interest spread as a result declined 12 basis points to 3.55%. Although the net interest spread declined, the decline was mitigated by an increase in income earned on free funds (interest-earning assets funded by non-interest bearing liabilities) resulting from an increase in average non-interest bearing deposits of $52.0 million. The components of net interest income will be discussed in greater detail below.

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

INTEREST INCOME AND EXPENSE VOLUME/RATE ANALYSIS

(tax equivalent basis, in thousands)

	2012 vs. 2011 Increase (Decrease) Due to Change in:			2011 vs. 2010 Increase (Decrease) Due to Change in:		
	Volume	**Rate**	**Total Change**	**Volume**	**Rate**	**Total Change**
Interest Income						
Loans and leases	**$ 4,284**	**$ (8,356)**	**$ (4,072)**	$ 140	$ (7,139)	$ (6,999)
Taxable investment securities and other	**(560)**	**(1,748)**	**(2,308)**	639	(1,691)	(1,052)
Tax-exempt investment securities	**(5)**	**(279)**	**(284)**	340	(346)	(6)
Federal funds sold				(40)	(30)	(70)
Total interest income	**3,719**	**(10,383)**	**(6,664)**	1,079	(9,206)	(8,127)
Interest Expense						
Savings deposits	**25**	**(113)**	**(88)**	26	(180)	(154)
Interest-bearing transaction accounts	**488**	**(1,449)**	**(961)**	49	(2,276)	(2,227)
Time deposits	**(753)**	**(732)**	**(1,485)**	(750)	(1,186)	(1,936)
Borrowings	**(1,110)**	**(1,021)**	**(2,131)**	(226)	(1,241)	(1,467)
Total interest expense	**(1,350)**	**(3,315)**	**(4,665)**	(901)	(4,883)	(5,784)
NET INTEREST INCOME (TAX EQUIVALENT BASIS)	**$ 5,069**	**$ (7,068)**	**$ (1,999)**	$ 1,980	$ (4,323)	$ (2,343)

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

CONSOLIDATED STATISTICS ON A TAX EQUIVALENT BASIS

	2012			2011			2010		
	Average Balance	Interest Income/ Expense	Average rates earned/ paid	Average Balance	Interest Income/ Expense	Average rates earned/ paid	Average Balance	Interest Income/ Expense	Average rates earned/ paid
				(dollars in thousands)					
Assets									
Interest-earning assets:									
Loans and leases(A)	$ 2,073,562	$ 100,513	4.85%	$ 1,997,652	$ 104,585	5.24%	$ 1,995,158	$ 111,584	5.59%
Taxable investment securities and other	435,733	8,574	1.97%	460,413	10,882	2.36%	438,653	11,934	2.72%
Tax-exempt securities	70,309	2,802	3.98%	70,437	3,086	4.38%	63,093	3,092	4.90%
Federal funds sold(B)	30,373	51	0.17%	31,939	51	0.16%	53,178	121	0.23%
Total interest-earning assets	2,609,977	111,940	4.29%	2,560,441	118,604	4.63%	2,550,082	126,731	4.97%
Noninterest earning assets:									
Allowance for loan and lease losses	(29,091)			(29,064)			(27,459)		
Other assets	252,055			251,452			254,346		
TOTAL ASSETS	$ 2,832,941			$ 2,782,829			$ 2,776,969		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Savings accounts	$ 347,766	$ 366	0.11%	$ 330,646	$ 454	0.14%	$ 317,620	$ 608	0.19%
Interest-bearing transaction accounts	1,171,318	4,813	0.41%	1,088,678	5,774	0.53%	1,082,026	8,001	0.74%
Time deposits	329,355	3,165	0.96%	400,442	4,650	1.16%	456,692	6,586	1.44%
Borrowings	237,814	7,102	2.99%	272,744	9,233	3.39%	278,754	10,700	3.84%
Total interest-bearing liabilities	2,086,253	15,446	0.74%	2,092,510	20,111	0.96%	2,135,092	25,895	1.21%
Noninterest-bearing liabilities:									
Demand deposits	474,579			422,568			359,915		
Other liabilities	13,826			12,776			12,702		
Stockholders equity	258,283			254,975			269,260		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,832,941			$ 2,782,829			$ 2,776,969		
Net interest income/spread		96,494	3.55%		98,493	3.67%		100,836	3.76%
Tax equivalent basis adjustment		981			1,080			1,082	
NET INTEREST INCOME		$ 95,513			$ 97,413			$ 99,754	
Net interest margin(C)			3.70%			3.85%			3.95%

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

(C) Net interest income on a tax equivalent basis divided by interest-earning assets.

Interest income on a tax equivalent basis decreased from $118.6 million in 2011 to $111.9 million in 2012, a decrease of $6.7 million, or 6%. The decrease in interest income was due to a 34 basis point decrease in the average yield on interest-earning assets, as a result of loans being refinanced at lower rates and lower yields on new loans and investments. The yield on average loans and leases at 4.85% in 2012 was 39 basis points lower than 2011. The yield on average taxable and tax-exempt investment securities decreased by 39 basis points to 1.97% and 40 basis points to 3.98%, respectively, in 2012.

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Interest income on a tax equivalent basis decreased from $126.7 million in 2010 to $118.6 million in 2011, a decrease of $8.1 million, or 6%. The decrease in interest income was due to a 34 basis point decrease in the average yield on interest-earning assets, as a result of loans being refinanced at lower rates and lower yields on new loans and investments. The yield on average loans and leases at 5.24% in 2011 was 35 basis points lower than 2010. The yield on average taxable and tax-exempt investment securities decreased by 36 basis points to 2.36% and 52 basis points to 4.38%, respectively, in 2011.

Total interest expense decreased from $20.1 million in 2011 to $15.4 million in 2012, a decrease of $4.7 million, or 23%. Average interest-bearing liabilities decreased $6.3 million while the cost of those liabilities decreased from 0.96% in 2011 to 0.74% in 2012. The decrease in yield was due primarily to the continuing low rate environment and a $71.1 million reduction in higher yielding time deposits as customers preferred to keep their deposits in short-term transaction accounts. Additionally, higher yielding average borrowings decreased $34.9 million to $237.8 million in 2012. Contributing to the decrease in borrowings was a payment early in the fourth quarter of 2012 of a $25.8 million subordinated debenture with a yield of 7.535%. The decrease in time deposits and borrowings was offset by increases in savings accounts, interest-bearing transaction accounts, and non-interest bearing deposits of $17.1 million, $82.6 million, and $52.0 million, respectively.

Total interest expense decreased from $25.9 million in 2010 to $20.1 million in 2011, a decrease of $5.8 million, or 22%. Average interest-bearing liabilities decreased $42.6 million and the cost of those liabilities decreased from 1.21% in 2010 to 0.96% in 2011. The decrease in yield was due primarily to the continuing low rate environment and a $56.3 million reduction in higher yielding time deposits as customers preferred to keep their deposits in short-term transaction accounts. The decrease in time deposits was offset by increases in savings accounts, interest-bearing transaction accounts, and non-interest bearing deposits of $13.0 million, $6.7 million, and $62.7 million, respectively.

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 3.70%, 3.85% and 3.95% for 2012, 2011 and 2010, respectively. The decrease in net interest margin from 2011 to 2012 and from 2010 to 2011 was primarily a result of the decrease in yield on interest-earning assets. The net interest margins for 2012, 2011 and 2010 would have been 3.78%, 3.94% and 4.02%, respectively, had all of the non-accrual loans performed in accordance with their terms.

Provision for Loan and Lease Losses

In determining the provision for loan and lease losses, management considers national and local economic conditions; trends in the portfolio including orientation to specific loan types or industries; experience, ability and depth of lending management in relation to the complexity of the portfolio; adequacy and adherence to policies, procedures and practices; levels and trends in delinquencies, impaired loans and leases and net charge-offs and the results of independent third party loan review.

The provision for loan and lease losses decreased from $18.8 million in 2011 to $14.9 million in 2012. Net charge-offs decreased from $17.7 million or 0.89% of average loans and leases in 2011 to $14.4 million or 0.69% of average loans and leases in 2012. The lower provision resulted from a decline in non-performing assets and from lower charge-offs during 2012. During the second quarter of 2012, the Company sold a group of primarily non-performing loans with a net book value of $4.5 million and recorded a charge-off of $1.9 million.

The provision for loan and lease losses decreased from $19.3 million in 2010 to $18.8 million in 2011. Net charge-offs increased from $17.5 million or 0.88% of average loans and leases in 2010 to $17.7 million or 0.89% of average loans and leases in 2011.

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Noninterest Income

Noninterest income increased $788,000, or 4%, to $18.9 million in 2012 compared to 2011. Service charges on deposit accounts at $10.5 million increased $242,000, or 2%, due primarily to the implementation of a new demand deposit pricing structure in the second quarter of 2012. Commissions and fees totaled $4.5 million in 2012 and were $788,000 or 21% higher than 2011 due to an increase in investment commission income and loan fees. Other income at $1.0 million in 2012 was $516,000 higher than 2011 primarily due to net gains recorded on the sale of bank owned properties in 2012. Gains on sales of investment securities and gains on leasing related assets decreased $180,000 and $499,000, respectively, from 2011 to 2012. The decline in gains on leasing related assets reflects the reduction in the leasing portfolio. Noninterest income represented 17% of total revenue in 2012.

Noninterest income was $18.1 million in 2011 compared to $19.3 million earned in 2010. The decrease in this category is primarily due to a reduction in gains on leasing related assets and investment securities. In 2011, gains on investment securities totaled $1.2 million, which was a $513,000 reduction from the same period in 2010 and gains on leasing related assets at $974,000 in 2011 were $606,000 lower than in 2010. Additionally, there was $128,000 in other-than-temporary impairment losses taken on the Company s equity securities portfolio in 2010 compared to no losses in 2011. Other income at $526,000 in 2011 was $221,000 lower than 2010 due primarily to a reduction in gains on loans sold. Income on bank owned life insurance in 2011 totaling $1.4 million was $93,000 lower than the same period in 2010 due primarily to decreases in rates on the underlying policies. Commissions and fees at $3.7 million in 2011 were $170,000 greater than the same period in 2010 due primarily to an increase in investment commission income. Noninterest income represented 16% of total revenue in 2011.

Noninterest Expense

Noninterest expense totaling $67.7 million decreased $478,000 in 2012 compared to 2011. FDIC insurance expense at $2.2 million was $627,000 lower than the same period in 2011 as a result of changes made by the FDIC in the method of calculating assessment rates. Collection expense, legal expense and expenses on other real estate and other repossessed assets decreased $127,000, $456,000 and $681,000, respectively, compared to 2011, resulting from the decline in the Company s non-performing assets. During the third quarter of 2011 the Company completed its core deposit intangible amortization, which resulted in a $577,000 decrease in that category. Marketing expense at $2.0 million decreased $375,000 or 16% due to the elimination of several marketing programs in 2012. Net occupancy expense at $7.1 million increased $204,000 compared to 2011 primarily as a result of increases in rental expense and depreciation expense for the new training and operations center, partially offset by a decline in snow removal expenses. Salaries and employee benefits at $38.6 million increased $2.1 million or 6% primarily due to normal salary increases, benefit increases and adjustments made to benefit plans to reflect the current interest rate environment.

Noninterest expense totaling $68.2 million decreased $2.3 million in 2011 compared to 2010. Long term debt prepayment fees in 2011 were $800,000 compared to $1.8 million for the same period in 2010 because the Company prepaid less long term debt in 2011 than in 2010. FDIC insurance expense at $2.8 million was $974,000 lower than the same period in 2010 as a result of changes made by the FDIC in the method of calculating assessment rates. Collection expense at $343,000 decreased $249,000, which reflects lower leasing related collection costs. Stationery, supplies and postage at $1.4 million and marketing expense at $2.4 million decreased $240,000 and $291,000, respectively, in 2011, primarily as a result of costs incurred for the Company s new brand identity project in 2010. During the third quarter of 2011 the Company completed its core deposit intangible amortization, which resulted in a $485,000 decrease in that category. Other real estate and repossessed asset expense at $780,000 increased $297,000 as a result of increased expenses related to other real estate properties.

The efficiency ratio, a non-GAAP measure, expresses the relationship between noninterest expense (excluding other real estate and other repossessed asset expense, long-term debt repayment fees, provision for

unfunded lending commitments and core deposit amortization) to total tax-equivalent revenue (excluding gains (losses) on securities). In 2012, the Company s efficiency ratio on a tax equivalent basis was 58.33% compared to 56.87% in 2011 as a result of an increase in adjusted expenses and decline in revenue. The efficiency ratio was 56.4% in 2010.

	For the year ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
			(dollars in thousands)		
Calculation of efficiency ratio (a non-GAAP measure)					
Total non-interest expense	**$ 67,673**	$ 68,151	$ 70,405	$ 73,794	$ 60,071
Less:					
Amortization of core deposit intangibles		(577)	(1,062)	(1,062)	(1,062)
Other real estate owned and other repossessed asset expense	**(99)**	(780)	(483)	(1,002)	(155)
Long-term debt prepayment fee	**(782)**	(800)	(1,835)	(3,075)	
Provision for unfunded lending commitments	**(93)**	(375)	(195)	(58)	(76)
Non-interest expense, as adjusted	**$ 66,699**	$ 65,619	$ 66,830	$ 68,597	$ 58,778
Net interest income	**$ 95,513**	$ 97,413	$ 99,754	$ 93,379	$ 88,579
Noninterest income	**18,905**	18,117	19,268	18,857	17,611
Total revenue	**114,418**	115,530	119,022	112,236	106,190
Plus: Tax-equivalent adjustment on municipal securities	**981**	1,080	1,082	1,206	1,287
Less: Gains on sales of investment securities	**(1,049)**	(1,229)	(1,614)	(2,905)	(53)
Total revenue, as adjusted	**$ 114,350**	$ 115,381	$ 118,490	$ 110,537	$ 107,424
Efficiency ratio (Non-GAAP)	**58.33%**	56.87%	56.40%	62.06%	54.72%

Income Taxes

The Company s effective income tax rate was 31.7%, 30.5% and 34.5%, in the years ended December 31, 2012, 2011 and 2010, respectively. The effective tax rate increased from 30.5% in 2011 to 31.7% in 2012 as a result of increased earnings and because of a reduction of tax advantaged items as a percent of pre-tax income. Tax advantaged items include interest income on tax-exempt securities and income on bank owned life insurance. The Company s lower effective tax rate of 30.5% in 2011 compared to 2010 was driven by increased tax benefits attributable to the real estate investment trust (REIT) subsidiary established in December 2010.

Financial Condition

Total assets increased from $2.83 billion on December 31, 2011 to $2.92 billion on December 31, 2012, an increase of $92.8 million, or 3%. Total assets at year-end 2011 increased $33.3 million or 1% from year-end 2010.

Loans and Leases

Lakeland primarily serves Northern New Jersey and the surrounding areas. Its equipment finance division serves a broader market with a primary focus on the Northeast. All of its borrowers are U.S. residents or entities.

Gross loans and leases totaling $2.15 billion as of December 31, 2012, increased $105.9 million or 5% compared to 2011. The increase in gross loans and leases is due primarily to increases in commercial loans secured by real estate and residential mortgages, which was partially offset by a decrease in real estate construction loans. Commercial loans secured by real estate increased from $1.01 billion in 2011 to $1.13 billion

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in 2012, an increase of $112.2 million, or 11%. Residential mortgages at $423.3 million increased $17.0 million or 4% compared to 2011. Real estate construction loans, which include commercial construction loans, at $46.3 million decreased $32.9 million or 42%. Total loans and leases at $2.04 billion as of December, 31 2011 increased $29.0 million, or 1% compared to December 31, 2010 primarily due to increases in commercial loans secured by real estate and commercial and industrial loans, which increased $42.7 million and $15.7 million, respectively, partially offset by a $38.3 million decline in leases, including leases held for sale.

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

			December 31,		
	2012	**2011**	**2010**	**2009**	**2008**
			(in thousands)		
Commercial, secured by real estate	**$ 1,125,137**	$ 1,012,982	$ 970,240	$ 914,223	$ 815,237
Commercial, industrial and other	**216,129**	209,915	194,259	172,744	143,383
Leases	**26,781**	28,879	65,640	113,160	311,463
Leases held for sale			1,517	7,314	
Real estate residential mortgage	**423,262**	406,222	403,561	382,750	342,660
Real estate construction	**46,272**	79,138	70,775	108,338	102,219
Home equity and consumer	**309,626**	304,190	306,322	315,598	315,704
	2,147,207	2,041,326	2,012,314	2,014,127	2,030,666
Plus deferred costs (fees)	**(364)**	249	2,303	2,908	4,165
Loans and leases net of deferred costs (fees)	**$ 2,146,843**	$ 2,041,575	$ 2,014,617	$ 2,017,035	$ 2,034,831

At December 31, 2012, there were no concentrations of loans or leases exceeding 10% of total loans and leases outstanding other than loans that are secured by real estate. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other related conditions.

The following table sets forth maturities and sensitivity to changes in interest rates in commercial loans in the Company s loan portfolio at December 31, 2012:

	Within one year	**After one but within five years**	**After five years**	**Total**
		(in thousands)		
Commercial, secured by real estate	$ 88,554	$ 196,333	$ 840,250	$ 1,125,137
Commercial, industrial and other	110,938	74,971	30,220	216,129
Real estate construction	19,887	8,144	18,241	46,272
Total	$ 219,379	$ 279,448	$ 888,711	$ 1,387,538
Predetermined rates	$ 30,094	$ 194,830	$ 109,125	$ 334,049
Floating or adjustable rates	189,285	84,618	779,586	1,053,489
Total	$ 219,379	$ 279,448	$ 888,711	$ 1,387,538

Risk Elements

Commercial loans and leases 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 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 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 management s knowledge of the specific circumstances warrant continued accrual. Consumer loans 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, satisfactory payments have been received for a sustained period (usually six months), or when it otherwise becomes well-secured and in the process of collection.

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

	At December 31,				
(dollars in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Commercial, secured by real estate	**$ 10,511**	$ 16,578	$ 12,905	$ 20,811	$ 2,642
Commercial, industrial, and other	**1,476**	4,608	1,702	2,047	839
Leases, including leases held for sale	**32**	575	6,277	3,511	8,463
Real estate residential mortgage	**8,733**	11,610	12,834	5,465	1,475
Real estate-construction	**4,031**	12,393	6,321	4,987	2,392
Home equity and consumer	**3,197**	3,252	2,930	1,890	733
Total non-accrual loans and leases	**27,980**	49,016	42,969	38,711	16,544
Other real estate and other repossessed assets	**529**	1,182	1,592	1,864	3,997
TOTAL NON-PERFORMING ASSETS	**$ 28,509**	$ 50,198	$ 44,561	$ 40,575	$ 20,541
Non-performing assets as a percent of total assets	**0.98%**	1.78%	1.60%	1.49%	0.78%
Loans and leases past due 90 days or more and still accruing	**$ 1,437**	$ 1,367	$ 1,218	$ 1,437	$ 825
Troubled debt restructurings, still accruing	**$ 7,336**	$ 8,856	$ 9,073	$ 3,432	$

Non-accrual loans and leases decreased to $28.0 million on December 31, 2012 from $49.0 million at December 31, 2011. Non-performing assets decreased in all categories. Commercial secured by real estate; commercial, industrial and other; construction real estate and residential mortgages decreased $6.1 million, $3.1 million, $8.4 million and $2.9 million, respectively.

Commercial loan non-accruals included 5 loan relationships between $500,000 and $1.0 million totaling $3.4 million, and 5 loan relationships exceeding $1.0 million totaling $6.6 million. The largest of the commercial loan non-accruals was $2.1 million. All non-accrual loans and leases are in various stages of litigation, foreclosure, or workout. Non-accrual loans included $3.4 million and $4.6 million in troubled debt restructurings for the years ended December 31, 2012 and 2011, respectively.

At December 31, 2012, Lakeland had $7.3 million in loans that were restructured and still accruing. Restructured loans 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 condition of the borrower.

For 2012, the gross interest income that would have been recorded, had the loans and leases classified at year-end as non-accrual been performing in conformance with their original terms, is approximately $2.8 million. The amount of interest income actually recorded on those loans and leases for 2012 was $724,000. The resultant loss of $2.1 million for 2012 compares with prior year losses of $2.4 million for 2011 and $1.8 million for 2010.

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As of December 31, 2012, Lakeland had impaired loans and leases totaling $31.5 million (consisting primarily of non-accrual and restructured loans and leases), compared to $43.1 million at December 31, 2011. The valuation allowance of these loans and leases is based primarily on the fair value of the underlying collateral. Based upon such evaluation, $873,000 has been allocated to the allowance for loan and lease losses for impairment at December 31, 2012 compared to $805,000 at December 31, 2011. At December 31, 2012, Lakeland also had $42.7 million in loans and leases that were rated substandard that were not classified as non-performing or impaired compared to $41.7 million at December 31, 2011.

There were no additional loans or leases at December 31, 2012, other than those designated non-performing, impaired or substandard, where the Company was aware of any credit conditions of any borrowers that would indicate a strong possibility of the borrowers not complying with the present terms and conditions of repayment and which may result in such loans or leases being included as non-accrual, past due or renegotiated at a future date.

The following table sets forth for each of the five years ended December 31, 2012, the historical relationships among the amount of loans and leases outstanding, the allowance for loan and lease losses, the provision for loan and lease losses, the amount of loans and leases charged off and the amount of loan and lease recoveries:

			December 31,		
	2012	**2011**	**2010**	**2009**	**2008**
			(dollars in thousands)		
Balance of the allowance at the beginning of the year	**$ 28,416**	$ 27,331	$ 25,563	$ 25,053	$ 14,689
Loans and leases charged off:					
Commercial, secured by real estate	**7,287**	5,352	7,510	2,524	95
Commercial, industrial and other	**949**	5,249	3,298	2,632	379
Leases	**999**	2,858	4,307	22,972	11,211
Leases held for sale				22,122	
Real estate residential mortgage	**1,822**	1,772	397	433	123
Real estate-construction	**2,888**	3,636	1,756	200	119
Home equity and consumer	**2,074**	3,010	2,250	2,499	2,044
Total loans and leases charged off	**16,019**	21,877	19,518	53,382	13,971
Recoveries:					
Commercial, secured by real estate	**280**	2,084	134	135	24
Commercial, industrial and other	**428**	439	62	134	17
Leases	**504**	1,206	1,391	1,777	150
Real estate residential mortgage	**66**	32	7		
Real estate-construction	**43**	67			38
Home equity and consumer	**306**	318	411	231	376
Total Recoveries	**1,627**	4,146	2,005	2,277	605
Net charge-offs:	**14,392**	17,731	17,513	51,105	13,366
Provision for loan and lease losses charged to operations	**14,907**	18,816	19,281	51,615	23,730
Ending balance	**$ 28,931**	$ 28,416	$ 27,331	$ 25,563	$ 25,053
Ratio of net charge-offs to average loans and leases outstanding:					
Including charge down of leases held for sale	**0.69%**	0.89%	0.88%	2.55%	0.68%
Excluding charge down of leases held for sale	**0.69%**	0.89%	0.88%	1.44%	0.68%
Ratio of allowance at end of year as a percentage of year-end total loans and leases	**1.35%**	1.39%	1.36%	1.27%	1.23%

The ratio of the allowance for loan and lease losses to loans and leases outstanding reflects management s evaluation of the underlying credit risk inherent in the loan portfolio. The determination of the adequacy of the

allowance for loan and lease losses and the periodic provisioning for estimated losses included in the consolidated financial statements is the responsibility of management and the Board of Directors. The evaluation process is undertaken on a quarterly basis.

Methodology employed for assessing the adequacy of the allowance consists of the following criteria:

- The establishment of reserve amounts for all specifically identified classified loans and leases that have been designated as requiring attention by the Company or the Company s external loan review consultants.

- The establishment of reserves for pools of homogeneous types of loans and leases not subject to specific review, including impaired commercial loans under $250,000, leases, 1 4 family residential mortgages, and consumer loans.

- The establishment of reserve amounts for the non-classified loans and leases in each portfolio based upon the historical average loss experience for these portfolios and management s evaluation of key factors.

Consideration is given to the results of ongoing credit quality monitoring processes, the adequacy and expertise of the Company s lending staff, underwriting policies, loss histories, delinquency trends, and the cyclical nature of economic and business conditions. Since many of the Company s loans depend on the sufficiency of collateral as a secondary source of repayment, any adverse trend in the real estate markets could affect underlying values available to protect the Company from loss.

A loan is reviewed for charge-off when it is placed on non-accrual status with a resulting charge-off if the loan is not secured by collateral having sufficient liquidation value to repay the loan and all accrued interest and the loan is not in the process of collection. Charge-offs are recommended by the Chief Credit Officer and approved by the Board on a monthly basis.

While the overall balance of the allowance for loan losses increased slightly at December 31, 2012 compared to levels at December 31, 2011, the components of the allowance changed to reflect the changes both in the portfolios and in the levels of non-performing loans within the portfolio segments. The allowance for loan and leases losses for the leasing portfolio declined from $688,000 to $578,000 to reflect the continuing decline in the size of the leasing portfolio and the decline in net charge-offs and non-performing loans in that portfolio. The decline in the allowance for the real estate-construction segment reflected both a decline in non-performing loans from $12.4 million at year-end 2011 to $4.0 million at December 31, 2012 as well as a decline in the overall portfolio from $79.1 million at year-end 2011 to $46.3 million at December 31, 2012. The allowance for loan and leases losses for the home equity and consumer portfolio declined from $3.1 million to $2.8 million due primarily to a decrease in net charge-offs. The allowance for loan and lease losses increased for both commercial loans and residential mortgages because those were the areas where the Company experienced the most growth and because of continuing economic pressures on the real estate market in the Northeast.

Non-performing loans and leases decreased from $49.0 million on December 31, 2011 to $28.0 million on December 31, 2012 and the allowance for loan and lease losses was 1.35% of total loans and leases on December 31, 2012 compared to 1.39% of total loans and leases on December 31, 2011. As discussed above, the decrease in non-accruals was in all categories. Management believes, based on appraisals and estimated selling costs that the majority of these loans are well secured and reserves on these loans are adequate. Based upon the process employed and giving recognition to all accompanying factors related to the loan and lease portfolio, management considers the allowance for loan and lease losses to be adequate at December 31, 2012. The preceding statement constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995.

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The following table shows how the allowance for loan and lease losses is allocated among the various types of loans and leases that the Company has outstanding. This allocation is based on management s specific review of the credit risk of the outstanding loans and leases in each category as well as historical trends.

	At December 31,									
	2012		2011		2010		2009		2008	
	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category
					(in thousands)					
Commercial, secured by real estate(1)	**$ 16,258**	**52.4%**	$ 16,618	49.6%	$ 11,366	48.2%	$ 9,285	45.4%	$ 8,954	40.2%
Commercial, industrial and other(1)	**5,103**	**10.1%**	3,477	10.3%	5,113	9.7%	4,647	8.6%		7.1%
Leases	**578**	**1.2%**	688	1.4%	3,477	3.3%	4,308	6.0%	11,212	15.3%
Real estate residential mortgage	**3,568**	**19.7%**	3,077	19.9%	2,628	20.1%	1,286	19.0%	626	16.9%
Real estate construction	**587**	**2.2%**	1,424	3.9%	2,176	3.5%	3,198	5.4%	2,054	5.0%
Home equity and consumer	**2,837**	**14.4%**	3,132	14.9%	2,571	15.2%	2,839	15.6%	2,207	15.5%
	$ 28,931	**100.0%**	$ 28,416	100.0%	$ 27,331	100.0%	$ 25,563	100.0%	$ 25,053	100.0%

(1) Data related to the allocation of the allowance for loan and lease losses between commercial loan categories was not available prior to 2009.

Investment Securities

The Company has classified its investment securities into the available for sale and held to maturity categories based on its intent and ability to hold the securities to maturity. The Company has no investment securities classified as trading securities.

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

	December 31,		
	2012	2011	2010
		(in thousands)	
U.S. Treasury and U.S. government agencies	**$ 102,660**	$ 52,608	$ 112,293
Mortgage-backed securities, residential	**278,624**	370,101	326,626
Mortgage-backed securities, multifamily	**1,421**		
Obligations of states and political subdivisions	**77,421**	76,528	66,784
Equity securities	**15,516**	23,132	24,536
Other debt securities	**14,993**	21,275	23,441
	$ 490,635	$ 543,644	$ 553,680

The Company does not own any collateralized debt obligations, pooled trust preferred securities or preferred stock with the Federal National Mortgage Association or the Federal Home Loan Mortgage Association. All of the Company s mortgage-backed securities are issued by U.S. Government or U.S. Government sponsored entities.

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The following table sets forth the maturity distribution and weighted average yields (calculated on the basis of the stated yields to maturity, considering applicable premium or discount), on a fully taxable equivalent basis, of investment securities available for sale as of December 31, 2012, at fair value:

Available for sale	Within one year	Over one but within five years	Over five but within ten years (dollars in thousands)	After ten years	Total
U.S. Treasury and U.S. government agencies					
Amount	$ 5,138	$ 32,678	$ 48,755	$	$ 86,571
Yield	0.48%	0.97%	1.36%	%	1.16%
Mortgage-backed securities, residential					
Amount	104	382	27,418	211,655	239,559
Yield	3.10%	5.35%	2.22%	1.73%	1.79%
Obligations of states and political subdivisions					
Amount	2,720	11,760	21,407	2,733	38,620
Yield	2.13%	3.24%	3.64%	2.52%	3.33%
Other debt securities					
Amount		12,022	602	820	13,444
Yield	%	1.83%	1.92%	1.11%	1.79%
Other equity securities					
Amount	15,516				15,516
Yield	2.20%	%	%	%	2.20%
Total securities					
Amount	$ 23,478	$ 56,842	$ 98,182	$ 215,208	$ 393,710
Yield	1.82%	1.65%	2.10%	1.74%	1.82%

The following table sets forth the maturity distribution and weighted average yields (calculated on the basis of the stated yields to maturity, considering applicable premium or discount), on a fully taxable equivalent basis, of investment securities held to maturity as of December 31, 2012, at amortized cost:

Held to maturity	Within one year	Over one but within five years	Over five but within ten years (dollars in thousands)	After ten years	Total
U.S. Treasury and U.S. government agencies					
Amount	$	$	$ 16,089	$	$ 16,089
Yield	%	%	1.77%	%	1.77%
Mortgage-backed securities, residential					
Amount	26	3	2,316	36,720	39,065
Yield	3.14%	2.24%	4.54%	2.15%	2.29%
Mortgage-backed securities, multifamily					
Amount			1,421		1,421
Yield	%	%	1.64%	%	1.64%
Obligations of states and political subdivisions					
Amount	14,416	13,369	7,821	3,195	38,801
Yield	2.04%	5.04%	3.80%	3.09%	3.51%
Other debt securities					
Amount		503	1,046		1,549
Yield	%	5.04%	5.66%	%	5.46%
Total securities					

Amount	$ 14,442	$ 13,875	$ 28,693	$ 39,915	$ 96,925
Yield	2.04%	5.04%	2.68%	2.23%	2.74%

Other Assets

Other assets decreased from $28.4 million at December 31, 2011 to $23.1 million at December 31, 2012 primarily due to a decline in the prepaid FDIC assessment of $2.0 million, a decrease in net deferred taxes of $1.2 million, a $807,000 sale of land held for sale at the parent company and a $774,000 reduction in common shares related to the redemption of Lakeland Bancorp Capital Trust III.

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, 2012 will be realized.

Deposits

Total deposits increased from $2.25 billion on December 31, 2011 to $2.37 billion on December 31, 2012, a $121.3 million, or 5%, increase. Noninterest bearing deposits totaling $498.1 million increased $48.5 million, or 11%, from 2011. Savings and interest-bearing transaction accounts increased from $1.44 billion to $1.57 billion, an increase of $128.6 million, or 9%. Total core deposits, which are defined as noninterest-bearing deposits and savings and interest-bearing transaction accounts, increased from $1.89 billion on December 31, 2011 to $2.07 billion on December 31, 2012, an increase of $177.1 million, or 9%. Core deposits represent 87% of total deposits at December 31, 2012 compared to 84% at the end of 2011. Total time deposits decreased from $359.6 million on December 31, 2011 to $303.8 million on December 31, 2012, a decrease of $55.8 million, or 16%. Time deposits have decreased as a result of the continuing low rate environment where depositors prefer to keep their deposits in liquid transaction accounts versus long-term accounts.

On December 31, 2012, the FDIC s Transaction Account Guarantee program (TAG) expired. This program insured all non-interest bearing deposits regardless of the size of the account balances. The bank has not experienced a significant decline in non-interest bearing deposit balances since the program ended.

Total deposits increased from $2.20 billion on December 31, 2010 to $2.25 billion on December 31, 2011, an increase of $53.8 million, or 2%.

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

	Year Ended December 31, 2012		Year Ended December 31, 2011		Year Ended December 31, 2010	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Noninterest-bearing demand deposits	**$ 474,579**	**%**	$ 422,568	%	$ 359,915	%
Interest-bearing transaction accounts	**1,171,318**	**0.41%**	1,088,678	0.53%	1,082,026	0.74%
Savings	**347,766**	**0.11%**	330,646	0.14%	317,620	0.19%
Time deposits	**329,355**	**0.96%**	400,442	1.16%	456,692	1.44%
Total	**$ 2,323,018**	**0.36%**	$ 2,242,334	0.49%	$ 2,216,253	0.69%

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As of December 31, 2012, the aggregate amount of outstanding time deposits issued in amounts of $100,000 or more, broken down by time remaining to maturity, was as follows (in thousands):

Maturity	
Within 3 months	$ 31,568
Over 3 through 6 months	21,187
Over 6 through 12 months	37,740
Over 12 months	25,019
Total	$ 115,514

Derivatives

The Company 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 the Company enters into with an outside third party. The swaps are reported at fair value in other assets or other liabilities. The Company 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 non-interest income. Further discussion of the Company s financial derivatives is set forth in Note 17 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 $48.6 million in 2012 compared to $49.9 million and $56.0 million in 2011 and 2010, respectively.

Deposits. Lakeland can offer new products or change its rate structure in order to increase deposits. In 2012, Lakeland generated $121.3 million in deposit growth.

Sales of securities and overnight funds. At year-end 2012, the Company had $393.7 million in securities designated available for sale. Of these securities, $293.1 million was pledged to secure public deposits and for other purposes required by applicable laws and regulations.

Repayments on loans and leases can also be a source of liquidity to fund further loan growth.

Overnight credit lines. As a member of the Federal Home Loan Bank of New York (FHLB), Lakeland has the ability to borrow overnight based on the market value of collateral pledged. Lakeland had no overnight borrowings from the FHLB on December 31, 2012. Lakeland also has overnight federal funds lines available for it to borrow up to $162.0 million. Lakeland had borrowings against these lines of $72.0 million at December 31, 2012. Lakeland also has the ability to utilize an unsecured 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, 2012.

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 6 to the consolidated financial statements.

Management and the Board 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. A discussion of the cash flow statement for year ended December 31, 2012 follows.

Cash and cash equivalents totaling $107.5 million on December 31, 2012, increased $35.0 million from December 31, 2011. Operating activities provided $48.6 million in net cash. Investing activities used $82.5 million in net cash, primarily reflecting an increase in loans and leases. Financing activities provided $68.9 million in net cash, reflecting a net increase of $121.3 million in deposits, $25.0 million in net proceeds on the issuance of stock, and a $45.2 million increase in federal funds purchased and securities sold under agreements to repurchase. These increases were partially offset by net repayments of $70.0 million in other borrowings, the redemption of $19.0 million in preferred stock and a $25.0 million net redemption of subordinated debentures.

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

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2012. Interest on subordinated debentures and other borrowings is calculated based on current contractual interest rates.

		Payment due period			
(dollars 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	$ 20,156	$ 2,209	$ 4,151	$ 3,006	$ 10,790
Benefit plan commitments	4,778	185	355	368	3,870
Remaining contractual maturities of time deposits	303,792	231,326	61,219	10,403	844
Subordinated debentures	51,548				51,548
Loan commitments	430,641	351,018	49,382	843	29,398
Other borrowings	85,000		10,000	30,000	45,000
Interest on other borrowings*	42,593	3,903	7,562	6,566	24,562
Standby letters of credit	7,922	5,166	2,676		80
Total	$ 946,430	$ 593,807	$ 135,345	$ 51,186	$ 166,092

* Includes interest on other borrowings and subordinated debentures at a weighted rate of 2.89%.

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 and does not have any off balance sheet hedging transactions in place, such as interest rate swaps and caps.

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 rates could adversely affect net interest income. Conversely, when interest-earning assets reprice more quickly than interest-bearing liabilities, an increase in market 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 Board of Directors. 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, Chief Operating Officer, Chief Financial Officer, Chief Lending Officer, Chief Retail Officer, Chief Credit Officer, certain other senior officers and certain directors. 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 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.

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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 2013 (the base case) is $96.3 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, 2012	-4.9%	-2.2%
December 31, 2011	-4.0%	-2.8%

In 2012, the ALCO expanded its policy review of interest rate risk to include 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	-20.0%	-15.0%	-10.0%	-5.0%	-5.0%	-10.0%	-15.0%	-20.0%
December 31, 2012	-8.7%	-6.4%	-4.2%	-2.1%	-4.1%	-4.6%	-4.6%	-4.6%

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, 2012 (the base case) was $345.4 million. The information provided for the net portfolio value assumes fluctuations or rate shocks for changes in interest rates as shown in the table below.

	Changes in interest rates					
Rate Shock	**+300 bp**	**+200 bp**	**+100 bp**	**-100 bp**	**-200 bp**	**-300 bp**
Asset/Liability Policy Limit	-35.0%	-25.0%			-25.0%	-35.0%
December 31, 2012	-14.6%	-7.4%	-2.3%	-5.1%	-8.9%	-7.8%
December 31, 2011	-14.1%	-7.2%	-0.7%	-6.4%	-12.9%	-13.9%

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

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

Capital Resources

Stockholders equity increased from $259.8 million on December 31, 2011 to $280.9 million on December 31, 2012. The increase in stockholders equity from December 31, 2011 to December 31, 2012 was primarily due to $21.7 million in net income and the Company s sale of an aggregate of 2,667,253 shares of common stock at $9.65 per share, which resulted in net proceeds of $25.0 million. Partially offsetting net income and the sale of common stock was the $19.0 million redemption of preferred stock, the warrant repurchase totaling $2.8 million and payment of dividends on common and preferred stock of $5.9 million. For more information on the redemption of preferred stock, please see Note 7 in Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

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Book value per common share (total common stockholders equity divided by the number of shares outstanding) increased from $8.99 on December 31, 2011 to $9.45 on December 31, 2012 primarily as a result of net income and the Company s sale of common stock as previously mentioned. Book value per common share was $8.40 on December 31, 2010. Tangible book value per share increased from $5.75 on December 31, 2011 to $6.52 on December 31, 2012. For more information see Non-GAAP Financial Measures.

The FDIC s risk-based capital policy statement imposes a minimum capital standard on insured banks. The minimum ratio of risk-based capital to risk-weighted assets (including certain off-balance sheet items, such as standby letters of credit) is 8%. At least half of the total capital is to be comprised of common stock equity and qualifying perpetual preferred stock, less goodwill (Tier I capital). The remainder (Tier II capital) may consist of mandatory convertible debt securities, qualifying subordinated debt, other preferred stock and a portion of the allowance for loan and lease losses. The Federal Reserve Board has adopted a similar risk-based capital guideline for the Company which is computed on a consolidated basis.

In addition, the bank regulators have adopted minimum leverage ratio guidelines (Tier I capital to average quarterly assets, less goodwill) for financial institutions. These guidelines provide for a minimum leverage ratio of 3% for financial institutions 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 following table reflects capital ratios of the Company and Lakeland as of December 31, 2012 and 2011:

	Tier 1 Capital to Total Average Assets Ratio December 31,		Tier 1 Capital to Risk-Weighted Assets Ratio December 31,		Total Capital to Risk-Weighted Assets Ratio December 31,	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Capital Ratios:						
The Company	**8.62%**	8.33%	**11.52%**	11.23%	**12.77%**	13.39%
Lakeland Bank	**7.98%**	8.40%	**10.66%**	11.33%	**11.92%**	12.59%
Well capitalized institution under FDIC Regulations	**5.00%**	5.00%	**6.00%**	6.00%	**10.00%**	10.00%

In June 2012, the Board of Governors of the Federal Reserve Bank, the FDIC, and the OCC approved three notices of proposed rulemaking (NPRs) that would significantly revise the regulatory capital requirements, implement the Basel III capital reforms and incorporate various Dodd-Frank capital provisions. The Company is currently evaluating the effect these NPRs, if adopted, will have on the Company.

Subsequent Event

On January 28, 2013, the Company entered into an agreement and Plan of Merger (the Merger Agreement) with Somerset Hills Bancorp, pursuant to which Somerset Hills Bancorp will merge with and into the Company. The Merger Agreement provides that the shareholders of Somerset Hills Bancorp will receive, at their election, for each outstanding share of Somerset Hills Bancorp common stock that they own at the effective time of the merger, either 1.1962 shares of Lakeland Bancorp common stock or $12.00 in cash, subject to proration as described in the Merger Agreement, so that 90% of the aggregate merger consideration will be shares of Lakeland Bancorp common stock and 10% will be cash. Lakeland Bancorp expects to issue an aggregate of 5,780,883 shares of its common stock in the merger, and will also assume outstanding Somerset Hills Bancorp stock options (which will be converted into options to purchase Lakeland Bancorp common stock). The transaction is valued at approximately $64.4 million in the aggregate (excluding the assumption of stock options), or $12.00 per share. As of December 31, 2012, Somerset Hills Bancorp had consolidated total assets, total loans, total deposits and total stockholders equity of $368.9 million, $241.9 million, $320.2 million and $41.8 million, respectively. Somerset Hills Bancorp had net income of $3.4 million for the year ended December 31, 2012.

The transaction has been approved by the board of directors of each of Lakeland Bancorp and Somerset Hills Bancorp. Subject to approval of the shareholders of Somerset Hills Bancorp and Lakeland Bancorp, regulatory approvals and other customary closing conditions, the Company anticipates completing the merger in the second or third quarter of 2013.

Non-GAAP Financial Measures

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 and tangible assets, 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.

			December 31,		
(In thousands, except per share amounts)	**2012**	**2011**	**2010**	**2009**	**2008**
Calculation of tangible book value per common share					
Total common stockholders equity at end of period GAAP	**$ 280,867**	$ 241,303	$ 223,235	$ 211,963	$ 220,941
Less:					
Goodwill	**87,111**	87,111	87,111	87,111	87,111
Other identifiable intangible assets, net			578	1,640	2,701
Total tangible common stockholders equity at end of period Non-GAAP	**$ 193,756**	$ 154,192	$ 135,546	$ 123,212	$ 131,129
Shares outstanding at end of period (1)	**29,726**	26,836	26,588	26,319	26,115
Book value per share GAAP (1)	**$ 9.45**	$ 8.99	$ 8.40	$ 8.05	$ 8.46
Tangible book value per share Non-GAAP (1)	**$ 6.52**	$ 5.75	$ 5.10	$ 4.68	$ 5.02
Calculation of tangible common equity to tangible assets					
Total tangible common stockholders equity at end of period Non-GAAP	**$ 193,756**	$ 154,192	$ 135,546	$ 123,212	$ 131,129
Total assets at end of period GAAP	**$ 2,918,703**	$ 2,825,950	$ 2,792,674	$ 2,723,968	$ 2,642,625
Less:					
Goodwill	**87,111**	87,111	87,111	87,111	87,111
Other identifiable intangible assets, net			578	1,640	2,701
Total tangible assets at end of period Non-GAAP	**$ 2,831,592**	$ 2,738,839	$ 2,704,985	$ 2,635,217	$ 2,552,813
Common equity to assets GAAP	**9.62%**	8.54%	7.99%	7.78%	8.36%
Tangible common equity to tangible assets Non-GAAP	**6.84%**	5.63%	5.01%	4.68%	5.14%

(1) Adjusted for 5% stock dividends in 2012 and 2011.

	For the years ended December 31,				
	2012	2011	2010	2009	2008
	(dollars in thousands)				
Calculation of return on average tangible common equity					
Net income (loss) GAAP	**$ 21,742**	$ 19,851	$ 19,211	$ (5,396)	$ 15,165
Total average common stockholders equity GAAP	**$ 256,364**	$ 232,711	$ 220,796	$ 217,062	$ 216,931
Less:					
Average goodwill	**87,111**	87,111	87,111	87,111	87,111
Average other identifiable intangible assets, net		166	1,120	2,182	3,247
Total average tangible common stockholders equity Non GAAP	**$ 169,253**	$ 145,434	$ 132,565	$ 127,769	$ 126,573
Return on average common stockholders equity GAAP	**8.48%**	8.53%	8.70%	-2.49%	6.99%
Return on average tangible common stockholders equity Non-GAAP	**12.85%**	13.65%	14.49%	-4.22%	11.98%

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (the FASB) issued new accounting guidance regarding the reconsideration of effective control for repurchase agreements. This guidance modifies the criteria for determining when repurchase agreements would be accounted for as a secured borrowing rather than as a sale. Currently, an entity that maintains effective control over transferred financial assets must account for the transfer as a secured borrowing rather than as a sale. This guidance removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The FASB believes that contractual rights and obligations determine effective control and that there does not need to be a requirement to assess the ability to exercise those rights. This guidance does not change the other existing criteria used in the assessment of effective control. The Company adopted the provisions of this guidance prospectively for transactions or modifications of existing transactions that occurred on or after January 1, 2012. As the Company accounted for all of its repurchase agreements as collateralized financing arrangements prior to the adoption of this guidance, the adoption had no impact on the Company s consolidated financial statements.

In May 2011, the FASB and the International Accounting Standards Board (the IASB) issued new accounting guidance on fair value measurement and disclosure requirements. This guidance is the result of work by the FASB and IASB to develop common requirements for measuring fair value and disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). As a result, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The guidance is effective during interim and annual periods beginning after December 15, 2011. The Company adopted this guidance in the first quarter of 2012. Adoption of this guidance did not have a significant impact on the Company s consolidated financial statements.

In June 2011, the FASB issued accounting guidance updating the requirements regarding the presentation of comprehensive income to increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS. Under the new guidance, the components of net income and the components of other comprehensive income can be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present components of other comprehensive income as part of the changes in stockholders equity. This

amendment will be applied prospectively and the amendments are effective for fiscal years and interim periods beginning after December 15, 2011. In December 2011, the FASB deferred certain aspects of this guidance related to the requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. The Company adopted this guidance during the first quarter of 2012. Adoption of this guidance did not have a significant impact on the Company s consolidated financial statements, but resulted in additional disclosure.

In September 2011, the FASB issued accounting guidance related to the annual testing of goodwill for impairment. Under the new guidance, an entity has the option to first determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If, however, the entity concludes otherwise, then it is required to perform the first step of the two-step impairment test and then perform the second test, if required. This amendment is effective for annual and interim goodwill impairment tests performed for the fiscal years beginning after December 15, 2011. The Company adopted this guidance for its goodwill review as of November 30, 2011. Adoption did not have a significant impact on the Company s consolidated financial statements.

In December 2011, the FASB issued accounting guidance regarding disclosures about offsetting assets and liabilities. The scope of this accounting guidance was further clarified by the FASB on January 1, 2013. This guidance affects all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with U.S. GAAP or (2) subject to an enforceable master netting arrangement or similar agreement. This information will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This guidance is not expected to have a significant impact on the Company s consolidated financial statements.

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.

ITEM 7A Quantitative and Qualitative Disclosures About Market Risk.

See Management s Discussion and Analysis of Financial Condition and Results of Operations.

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ITEM 8 Financial Statements and Supplementary Data.

Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2012	2011
	(dollars in thousands)	
ASSETS		
Cash	**$ 100,926**	$ 60,688
Interest-bearing deposits due from banks	**6,619**	11,870
Total cash and cash equivalents	**107,545**	72,558
Investment securities, available for sale, at fair value	**393,710**	463,611
Investment securities, held to maturity, at amortized cost with fair value of $99,784 in 2012 and $74,274 in 2011	**96,925**	71,700
Federal Home Loan Bank Stock, at cost	**5,382**	8,333
Loans, net of deferred costs (fees)	**2,146,843**	2,041,575
Less: allowance for loan and lease losses	**28,931**	28,416
Net loans	**2,117,912**	2,013,159
Premises and equipment net	**33,280**	27,917
Accrued interest receivable	**7,643**	8,369
Goodwill	**87,111**	87,111
Bank owned life insurance	**46,143**	44,760
Other assets	**23,052**	28,432
TOTAL ASSETS	**$ 2,918,703**	$ 2,825,950
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest bearing	**$ 498,066**	$ 449,560
Savings and interest-bearing transaction accounts	**1,569,139**	1,440,541
Time deposits under $100 thousand	**188,278**	211,797
Time deposits $100 thousand and over	**115,514**	147,755
Total deposits	**2,370,997**	2,249,653
Federal funds purchased and securities sold under agreements to repurchase	**117,289**	72,131
Other borrowings	**85,000**	155,000
Subordinated debentures	**51,548**	77,322
Other liabilities	**13,002**	12,061
TOTAL LIABILITIES	**2,637,836**	2,566,167
STOCKHOLDERS EQUITY		
Preferred stock, Series A, no par value, $1,000 liquidation value, authorized 1,000,000 shares; issued 0 shares at December 31, 2012 and 19,000 at December 31, 2011		18,480
Common stock, no par value; authorized 40,000,000 shares; issued shares, 29,941,967 at December 31,2012 and 27,275,480 at December 31, 2011; outstanding shares, 29,725,890 at December 31, 2012 and 26,836,140 at December 31, 2011	**303,794**	270,044
Accumulated Deficit	**(24,145)**	(26,061)

Treasury stock, at cost, 216,077 shares in 2012 and 439,340 shares in 2011	**(2,718)**	(5,551)
Accumulated other comprehensive gain	**3,936**	2,871
TOTAL STOCKHOLDERS EQUITY	**280,867**	259,783
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 2,918,703**	$ 2,825,950

The accompanying notes are an integral part of these statements.

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2012	**2011**	**2010**
	(dollars in thousands, except per share data)		
INTEREST INCOME			
Loans, leases and fees	**$ 100,513**	$ 104,585	$ 111,584
Federal funds sold and interest-bearing deposits with banks	**51**	51	121
Taxable investment securities and other	**8,574**	10,882	11,934
Tax-exempt investment securities	**1,821**	2,006	2,010
TOTAL INTEREST INCOME	**110,959**	117,524	125,649
INTEREST EXPENSE			
Deposits	**8,344**	10,878	15,195
Federal funds purchased and securities sold under agreements to repurchase	**79**	88	127
Other borrowings	**7,023**	9,145	10,573
TOTAL INTEREST EXPENSE	**15,446**	20,111	25,895
NET INTEREST INCOME	**95,513**	97,413	99,754
Provision for loan and lease losses	**14,907**	18,816	19,281
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	**80,606**	78,597	80,473
NONINTEREST INCOME			
Service charges on deposit accounts	**10,504**	10,262	10,278
Commissions and fees	**4,491**	3,703	3,533
Gains on sales and calls of investment securities, net	**1,049**	1,229	1,742
Other-than-temporary impairment loss on securities			(128)
Income on bank owned life insurance	**1,344**	1,423	1,516
Gains on leasing related assets, net	**475**	974	1,580
Other income	**1,042**	526	747
TOTAL NONINTEREST INCOME	**18,905**	18,117	19,268
NONINTEREST EXPENSE			
Salaries and employee benefits	**38,586**	36,500	36,086
Net occupancy expense	**7,089**	6,885	6,735
Furniture and equipment	**4,751**	4,726	4,867
Stationery, supplies and postage	**1,415**	1,396	1,636
Marketing expense	**2,034**	2,409	2,700
Core deposit intangible amortization		577	1,062
FDIC insurance expense	**2,163**	2,790	3,764
Collection expense	**216**	343	592
Legal expense	**1,236**	1,692	1,698
Other real estate and repossessed asset expense	**99**	780	483
Long-term debt prepayment fee	**782**	800	1,835
Other expenses	**9,302**	9,253	8,947
TOTAL NONINTEREST EXPENSE	**67,673**	68,151	70,405

Income before provision for income taxes	**31,838**	28,563	29,336
Provision for income taxes	**10,096**	8,712	10,125
NET INCOME	**$ 21,742**	$ 19,851	$ 19,211
Dividends on Preferred Stock and Accretion	**$ 620**	$ 2,167	$ 3,987
Net Income Available to Common Stockholders	**$ 21,122**	$ 17,684	$ 15,224
PER SHARE OF COMMON STOCK:			
Basic earnings	**$ 0.76**	$ 0.66	$ 0.57
Diluted earnings	**$ 0.76**	$ 0.66	$ 0.57
Cash dividends	**$ 0.25**	$ 0.23	$ 0.19

The accompanying notes are an integral part of these statements.

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31,		
	2012	2011	2010
		(in thousands)	
NET INCOME	**$ 21,742**	$ 19,851	$ 19,211
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized securities gains (losses) during period	**1,728**	5,445	(64)
Less: reclassification for gains included in net income	**682**	799	1,049
Change in pension liability, net	**19**	(102)	97
Other Comprehensive Income (Loss)	**1,065**	4,544	(1,016)
TOTAL COMPREHENSIVE INCOME	**$ 22,807**	$ 24,395	$ 18,195

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

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

For the years ended December 31, 2012, 2011 and 2010

	Common stock					Accumulated Other Comprehensive	
	Number of Shares	Amount	Series A Preferred Stock	Accumulated Deficit	Treasury Stock	Income (Loss)	Total
				(dollars in thousands)			
BALANCE DECEMBER 31, 2009	24,740,564	259,521	56,023	(34,961)	(11,940)	(657)	267,986
Net Income				19,211			19,211
Other comprehensive loss, net of tax						(1,016)	(1,016)
Preferred dividends				(2,536)			(2,536)
Accretion of discount			1,451	(1,451)			
Stock based compensation		538					538
Redemption of preferred stock			(20,000)				(20,000)
Stock dividend	1,237,028	13,224		(13,224)			
Issuance of restricted stock awards		(476)			476		
Issuance of stock to dividend reinvestment and stock purchase plan		(516)		(864)	1,437		57
Exercise of stock options, net of excess tax benefits		(696)			1,344		648
Cash dividends, common stock				(4,179)			(4,179)
BALANCE DECEMBER 31, 2010	25,977,592	$ 271,595	$ 37,474	$ (38,004)	$ (8,683)	$ (1,673)	$ 260,709
Net Income				19,851			19,851
Other comprehensive income, net of tax						4,544	4,544
Preferred dividends				(1,161)			(1,161)
Accretion of discount			1,006	(1,006)			
Stock based compensation		627					627
Redemption of preferred stock			(20,000)				(20,000)
Adjustment for stock dividend	(944)	(309)		309			
Issuance of restricted stock awards		(1,262)			1,262		
Issuance of stock to dividend reinvestment and stock purchase plan		(520)		(1,009)	1,714		185
Exercise of stock options, net of excess tax benefits		(87)			156		69
Cash dividends, common stock				(5,041)			(5,041)
BALANCE DECEMBER 31, 2011	25,976,648	$ 270,044	$ 18,480	$ (26,061)	$ (5,551)	$ 2,871	$ 259,783
Net Income				**21,742**			**21,742**
Other comprehensive income, net of tax						**1,065**	**1,065**
Preferred dividends				**(100)**			**(100)**
Accretion of discount			**520**	**(520)**			
Stock based compensation		**746**					**746**
Redemption of preferred stock			**(19,000)**				**(19,000)**
Warrant repurchase		**(2,800)**					**(2,800)**
Stock dividend	**1,298,066**	**12,345**		**(12,345)**			

Stock issuance, net of expenses	**2,667,253**	**25,040**					**25,040**
Issuance of restricted stock awards		**(1,153)**			**1,153**		
Issuance of stock to dividend reinvestment and stock purchase plan		**(432)**		**(1,088)**	**1,680**		**160**
Exercise of stock options, net of excess tax benefits		**4**					**4**
Cash dividends, common stock				**(5,773)**			**(5,773)**
BALANCE December 31, 2012	**29,941,967**	**$ 303,794**	**$**	**$ (24,145)**	**$ (2,718)**	**$ 3,936**	**$ 280,867**

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

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2012	2011 (in thousands)	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 21,742**	$ 19,851	$ 19,211
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premiums, discounts and deferred loan fees and costs	**6,125**	6,519	4,404
Depreciation and amortization	**3,067**	2,904	3,061
Amortization of intangible assets		577	1,062
Provision for loan and lease losses	**14,907**	18,816	19,281
Stock based compensation	**746**	627	538
Gains on securities, net	**(1,049)**	(1,229)	(1,742)
Other-than-temporary impairment loss on securities			128
Gains on leases	**(471)**	(1,026)	(772)
Writedown of other repossessed assets		230	
(Gains) losses on other real estate and other repossessed assets	**(47)**	115	(808)
Gain on sale of premises and equipment	**(201)**	(167)	(48)
Deferred tax provision	**576**	172	547
Decrease in other assets	**2,107**	2,162	11,105
Increase in other liabilities	**1,089**	379	23
NET CASH PROVIDED BY OPERATING ACTIVITIES	**48,591**	49,930	55,990
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from repayments on and maturity of securities:			
Available for sale	**117,130**	161,241	160,581
Held to maturity	**26,070**	20,057	26,054
Proceeds from sales of securities:			
Available for sale	**97,824**	92,409	76,048
Purchase of securities:			
Available for sale	**(144,652)**	(234,230)	(349,357)
Held to maturity	**(54,510)**	(26,834)	(10,939)
Net decrease (increase) in Federal Home Loan Bank Stock	**2,951**	1,530	(2,654)
Proceeds from sales of leases		16,433	1,077
Net increase in loans and leases	**(120,870)**	(64,403)	(19,057)
Proceeds from dispositions of premises and equipment	**749**	325	288
Capital expenditures	**(8,978)**	(3,425)	(1,659)
Proceeds from sales of other real estate and other repossessed assets	**1,768**	2,548	4,133
NET CASH USED IN INVESTING ACTIVITIES	**(82,518)**	(34,349)	(115,485)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	**121,344**	53,764	38,702
Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	**45,158**	20,008	(11,549)
Proceeds from other borrowings	**280,000**	140,000	90,000
Repayments of other borrowings	**(350,000)**	(180,000)	(40,900)
Issuance of stock to Dividend Reinvestment and Stock Purchase Plan	**160**	185	57
Proceeds on issuance of stock, net	**25,040**		
Redemption of subordinated debentures, net	**(25,000)**		

Redemption of preferred stock and common stock warrant	**(21,800)**	(20,000)	(20,000)
Exercise of stock options		72	627
Excess tax benefits	**4**	(3)	21
Dividends paid on preferred stock	**(219)**	(1,286)	(2,669)
Dividends paid on common stock	**(5,773)**	(5,041)	(4,179)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**68,914**	7,699	50,110
Net increase (decrease) in cash and cash equivalents	**34,987**	23,280	(9,385)
Cash and cash equivalents, beginning of year	**72,558**	49,278	58,663
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 107,545**	$ 72,558	$ 49,278

The accompanying notes are an integral part of these statements.

Lakeland Bancorp, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

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

Lakeland operates as a commercial bank offering a wide variety of commercial loans and leases 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 time, savings and money market, and demand deposit accounts to both commercial enterprises and individuals. 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 equipment lease financing primarily to small and medium sized business clients and an asset based lending department which specializes in utilizing particular assets to fund the working capital needs of borrowers.

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

Certain reclassifications have been made to prior period financial statements to conform to the 2012 persentation.

Basis of Financial Statement Presentation

The accounting and reporting policies of the Company and its subsidiaries conform with accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry. The consolidated financial statements include the accounts of the Company, Lakeland, Lakeland NJ Investment Corp., Lakeland Investment Corp., Lakeland Equity, Inc., and Lakeland Preferred Equity, Inc. All 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 valuation of the Company s investment securities portfolio, the realizability of the Company s deferred tax asset and the analysis of goodwill and intangible 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 and lease totals. However, actual losses may be higher or lower than historical trends, which vary. Actual losses on specified problem loans and leases, which also are provided for in the evaluation, may vary from estimated loss percentages, which are established based upon a limited number of potential loss classifications.

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The Company s operating segments are components of its enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company s chief operating decision maker is its Chief Executive Officer. All of the Company s activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, commercial lending is dependent upon the ability of Lakeland to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. The situation is also similar for consumer and residential mortgage lending. 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.

Investment Securities

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

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

If the Company intends to sell an impaired security, the Company records an other-than-temporary loss in an amount equal to the entire difference between the fair value and amortized cost. If a security is determined to be other-than-temporarily impaired, but the Company does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income.

Loans and Leases and Allowance for Loan and Lease Losses

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

Interest income is accrued as earned on a simple interest basis. 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 or lease when management believes, after considering economic and business conditions and collection efforts that the borrower s financial condition is such that collection of interest and principal is doubtful. When a loan or lease is placed on such non-accrual status, all accumulated accrued interest receivable is reversed out of current period income.

Commercial loans and leases 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 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 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 management s knowledge of the specific circumstances warrant continued accrual. Consumer loans 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 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, 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 and leases are considered impaired when, based on current information and events, it is probable that Lakeland will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is measured based on the present value of expected cash flows discounted at the loan s effective interest rate, 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. Most of Lakeland s impaired loans are collateral-dependent. Lakeland groups impaired commercial loans under $250,000 into a homogeneous pool and collectively evaluates them. Interest received on impaired loans and leases may be recorded as interest income. However, if management is not reasonably certain that an impaired loan and lease will be repaid in full, or if a specific time frame to resolve full collection cannot yet be reasonably determined, all payments received are recorded as reductions of principal.

Loans are classified as troubled debt restructured loans in cases where borrowers experience financial difficulties and the Company 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 for a new loan with similar risk. Nonetheless, restructured loans are classified as impaired loans.

Once an obligation has been restructured because of credit problems, it continues to be considered restructured until paid in full or if all of the following conditions are met: (1) the financial problems of the borrower have been cured; (2) the obligation is returned to a market rate and term; and (3) there has been performance for the longer of the next annual reporting period or six consecutive months. If an obligation has been restructured, it will continue to be classified as impaired until the obligation is fully repaid.

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

The determination of the adequacy of the allowance for loan and lease losses and the periodic provisioning for estimated losses included in the consolidated financial statements is the responsibility of management and the Board of Directors. The evaluation process is undertaken on a quarterly basis.

Methodology employed for assessing the adequacy of the allowance consists of the following criteria:

The establishment of reserve amounts for all specifically identified classified loans and leases that have been designated as requiring attention by the Company or the Company s external loan review consultants.

The establishment of reserves for pools of homogeneous types of loans and leases not subject to specific review, including impaired commercial loans under $250,000, leases, 1 4 family residential mortgages, and consumer loans.

The establishment of reserve amounts for the non-classified loans and leases in each portfolio based upon the historical average loss experience for these portfolios and management s evaluation of key factors.

Consideration is given to the results of ongoing credit quality monitoring processes, the adequacy and expertise of the Company s lending staff, underwriting policies, loss histories, delinquency trends, and the cyclical nature of economic and business conditions. Since many of the Company s loans depend on the sufficiency of collateral as a secondary source of repayment, any adverse trend in the real estate markets could affect underlying values available to protect the Company from loss.

A loan is reviewed for charge-off when it is placed on non-accrual status with a resulting charge-off if the loan is not secured by collateral having sufficient liquidation value to repay the loan and all outstanding interest owed, and the loan is not in the process of collection. Charge-offs are recommended by the Chief Credit Officer and approved by the Board on a monthly basis.

The Company transfers leases to held for sale status when it identifies leases that it intends to sell. At that time, the specific leases are written down to the lower of cost or market value by recording a charge to the allowance for loan and lease losses. Market indications are derived from sale price indications from potential buyers and based on recent sale prices of prior lease pools adjusted for differences in types of collateral and other characteristics. Subsequent declines in fair market value are recorded as a loss on leasing related assets in the statement of operations. The Company has no leases designated as held for sale at this time.

Bank Premises and Equipment

Bank 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.

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Mortgage Servicing

The Company 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, 2012 and 2011, Lakeland was servicing approximately $27.9 million and $30.3 million, respectively, of loans for others.

The Company originates mortgages under a definitive plan to sell or securitize those loans and service the loans owned by the investor. Upon the transfer of the mortgage loans in a sale or a securitization, the Company records the servicing assets retained. The Company records mortgage servicing rights and the loans based on relative fair values at the date of origination and evaluated for impairment at each reporting period.

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. No mortgage loans were identified as held for sale as of December 31, 2012 and 2011.

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.

Customer Derivatives

The Company 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 the Company enters into with an outside third party. The swaps are reported at fair value in other assets or other liabilities. The Company 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 non-interest income. Further discussion of the Company s financial derivatives is set forth Note 17 to the Consolidated Financial Statements.

The credit risk associated with derivatives executed with customers is essentially the same as that involved in extending loans and is subject to normal credit policies. Collateral may be obtained based on management s assessment of the customer. The positions of customer derivatives are recorded at fair value and changes in value are included in non-interest income on the consolidated statement of operations.

Restrictions On Cash And Due From Banks

Lakeland is required to maintain reserves against customer demand deposits by keeping cash on hand or balances with the Federal Reserve Bank of New York in a noninterest bearing account. The amounts of those reserves at December 31, 2012 and 2011 were approximately $428,000 and $325,000, respectively.

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. Unless otherwise indicated, all weighted average, actual shares or per share information in the financial statements have been adjusted retroactively for the effect of stock dividends.

Employee Benefit Plans

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

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

Stock-Based Compensation

The Company s shareholders approved the 2009 Equity Compensation Program, which authorizes the granting of incentive stock options, supplemental stock options, restricted shares and restricted stock units to employees of the Company, including those employees serving as officers and directors of the Company. The plan authorizes the issuance of up to 2.2 million shares in connection with options and awards granted under the 2009 program. The Company s stock option grants under this plan expire 10 years from the date of grant, ninety days after termination of service other than for cause, or one year after death or disability of the grantee. The Company currently has no option or restricted stock awards with market or performance conditions attached to them.

The Company established the 2000 Equity Compensation Program which authorizes the granting of incentive stock options, supplemental stock options and restricted stock to employees of the Company, which includes those employees serving as officers and directors of the Company. The plan authorized 2,488,748 shares of common stock of the Company. All of the Company s stock option grants expire 10 years from the date of grant, thirty days after termination of service other than for cause, or one year after death or disability of the grantee. The Company has no option or restricted stock awards with market or performance conditions attached to them. The Company generally issues shares for option exercises from its treasury stock using the cost method. No further awards will be granted from the 2000 program.

Statement Of Cash Flows

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. The following shows supplemental non-cash investing and financing activities for the periods presented:

	2012	**2011**	**2010**
		(in thousands)	
Transfer of loans and leases receivable to other real estate owned and other repossessed assets	**$ 1,068**	$ 2,482	$ 3,052
Cash paid for income taxes	**9,382**	8,874	6,460
Cash paid for interest	**16,334**	20,366	26,508
Transfer of leases from held for sale to held for investment		1,517	1,888

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Comprehensive Income

The Company reports comprehensive income in addition to net income (loss) 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.

	Year ended December 31, 2012		
	Before tax amount	Tax Benefit (Expense)	Net of tax amount
		(dollars in thousands)	
Unrealized gains on available for sale securities			
Unrealized holding gains arising during period	**$ 2,697**	**$ (969)**	**$ 1,728**
Less reclassification adjustment for net gains realized in net income	**1,049**	**(367)**	**682**
Net unrealized gains on available for sale securities	**1,648**	**(602)**	**1,046**
Change in pension liabilities	**30**	**(11)**	**19**
Other comprehensive income, net	**$ 1,678**	**$ (613)**	**$ 1,065**

	Year ended December 31, 2011		
	Before tax amount	Tax Benefit (Expense)	Net of tax amount
		(dollars in thousands)	
Unrealized gains on available for sale securities			
Unrealized holding gains arising during period	$ 8,600	$ (3,155)	$ 5,445
Less reclassification adjustment for net gains realized in net income	1,229	(430)	799
Net unrealized gains on available for sale securities	7,371	(2,725)	4,646
Change in pension liabilities	(176)	74	(102)
Other comprehensive income, net	$ 7,195	$ (2,651)	$ 4,544

	Year ended December 31, 2010		
	Before tax amount	Tax Benefit (Expense)	Net of tax amount
		(dollars in thousands)	
Unrealized losses on available for sale securities			
Unrealized holding losses arising during period	$ (139)	$ 75	$ (64)
Less reclassification adjustment for net gains realized in net income	1,614	(565)	1,049
Net unrealized losses on available for sale securities	(1,753)	640	(1,113)
Change in pension liabilities	161	(64)	97
Other comprehensive loss, net	$ (1,592)	$ 576	$ (1,016)

Goodwill and Other Identifiable Intangible Assets

Goodwill and core deposit intangibles resulting from prior acquisitions totaled $87.1 million and $7.9 million, respectively, at the time of acquisition. Total goodwill was $87.1 million at December 31, 2012 and 2011. In the third quarter of 2011 the Company completed its core deposit intangible amortization. Core deposit intangibles were $578,000 at December 31, 2010 which was amortized in 2011. Core deposit

amortization was $1.1 million for 2010.

The Company reviews goodwill for impairment annually as of November 30 or when circumstances indicate a potential for impairment at the reporting unit level. U.S. GAAP requires at least an annual review of the fair value of a Reporting Unit that has goodwill in order to determine if it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, including

goodwill. If this qualitative test determines it is unlikely (less than 50% probability) the carrying value of the Reporting Unit is less than its fair value, then the company does not have to perform a Step One impairment test. If the probability is greater than 50%, a Step One goodwill impairment test is required. The Step One test compares the fair value of each reporting unit to the carrying value of its net assets, including goodwill. If the fair value is less than carrying value, the Step Two test is required. The Company has determined that it has one reporting unit, Community Banking.

The Company performed a qualitative analysis to determine whether the weight of evidence, the significance of all identified events and circumstances indicated a greater than 50% likelihood existed that the carrying value of the Reporting Unit exceeded its fair value and if a Step One Test would be required. The Company identified nine qualitative assessments that are relative to the banking industry and to the Company. These factors included macroeconomic factors, banking industry conditions, banking merger and acquisition trends, Lakeland s historical performance, the Company s stock price, the expected performance of Lakeland, the change of control premium of the Company versus its peers and other miscellaneous factors. After reviewing and weighting these factors, the Company, as well as a third party adviser, determined as of November 30, 2012 that there was a less than 50% probability that the fair value of the Company was less than its carrying amount. Therefore, no Step One test was required.

Bank Owned Life Insurance

The Company invests in bank owned life insurance (BOLI). BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is owner and beneficiary of the policies. At December 31, 2012 and 2011, the Company had $46.1 million and $44.8 million, respectively, in BOLI. Income earned on BOLI was $1.3 million, $1.4 million and $1.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. The decrease in income earned on BOLI in 2012 compared to 2011 was due to a decrease in the yield on the underlying policies.

Income Taxes

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

The Company evaluates tax positions that may be uncertain using a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Additional information regarding the Company s uncertain tax positions is set forth in Note 9 below.

Variable Interest Entities

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

The Company s maximum exposure to the Trusts is $50 million at December 31, 2012 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 at March 31, 2011. 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.

New Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (the FASB) issued new accounting guidance regarding the reconsideration of effective control for repurchase agreements. This guidance modifies the criteria for determining when repurchase agreements would be accounted for as a secured borrowing rather than as a sale. Currently, an entity that maintains effective control over transferred financial assets must account for the transfer as a secured borrowing rather than as a sale. This guidance removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The FASB believes that contractual rights and obligations determine effective control and that there does not need to be a requirement to assess the ability to exercise those rights. This guidance does not change the other existing criteria used in the assessment of effective control. The Company adopted the provisions of this guidance prospectively for transactions or modifications of existing transactions that occurred on or after January 1, 2012. As the Company accounted for all of its repurchase agreements as collateralized financing arrangements prior to the adoption of this guidance, the adoption had no impact on the Company s consolidated financial statements.

In May 2011, the FASB and the International Accounting Standards Board (the IASB) issued new accounting guidance on fair value measurement and disclosure requirements. This guidance is the result of work by the FASB and IASB to develop common requirements for measuring fair value and disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). As a result, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The guidance is effective during interim and annual periods beginning after December 15, 2011. The Company adopted this guidance in the first quarter of 2012. Adoption of this guidance did not have a significant impact on the Company s consolidated financial statements.

In June 2011, the FASB issued accounting guidance updating the requirements regarding the presentation of comprehensive income to increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS. Under the new guidance, the components of net income and the components of other comprehensive income can be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present components of other comprehensive income as part of the changes in stockholders equity. This amendment will be applied prospectively and the amendments are effective for fiscal years and interim periods beginning after December 15, 2011. In December 2011, the FASB deferred certain aspects of this guidance related to the requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. The Company adopted this guidance during the first quarter of 2012. Adoption of this guidance did not have a significant impact on the Company s consolidated financial statements, but resulted in additional disclosure.

In September 2011, the FASB issued accounting guidance related to the annual testing of goodwill for impairment. Under the new guidance, an entity has the option to first determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is

less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If, however, the entity concludes otherwise, then it is required to perform the first step of the two-step impairment test and then perform the second test, if required. This amendment is effective for annual and interim goodwill impairment tests performed for the fiscal years beginning after December 15, 2011. The Company adopted this guidance for its goodwill review as of November 30, 2011. Adoption did not have a significant impact on the Company s consolidated financial statements.

In December 2011, the FASB issued accounting guidance regarding disclosures about offsetting assets and liabilities. The scope of this accounting guidance was further clarified by the FASB on January 1, 2013. This guidance affects all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with U.S. GAAP or (2) subject to an enforceable master netting arrangement or similar agreement. This information will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This guidance is not expected to have a significant impact on the Company s consolidated financial statements.

NOTE 2 INVESTMENT SECURITIES

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

	December 31, 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)				(in thousands)			
AVAILABLE FOR SALE								
U.S. treasury and U.S. government agencies	**$ 86,002**	**$ 577**	**$ (8)**	**$ 86,571**	$ 43,463	$ 140	$	$ 43,603
Mortgage-backed securities, residential	**235,052**	**5,086**	**(579)**	**239,559**	344,938	5,014	(428)	349,524
Obligations of states and political subdivisions	**36,848**	**1,832**	**(60)**	**38,620**	34,102	1,875	(9)	35,968
Other debt securities	**13,576**	**189**	**(321)**	**13,444**	20,965	72	(1,320)	19,717
Equity securities	**14,984**	**608**	**(76)**	**15,516**	14,543	306	(50)	14,799
	$ 386,462	**$ 8,292**	**$ (1,044)**	**$ 393,710**	$ 458,011	$ 7,407	$ (1,807)	$ 463,611

	December 31, 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)				(in thousands)			
HELD TO MATURITY								
U.S. government agencies	**$ 16,089**	**$ 385**	**$**	**$ 16,474**	$ 9,005	$ 134	$	$ 9,139
Mortgage-backed securities, residential	**39,065**	**1,313**	**(27)**	**40,351**	20,577	1,148	(1)	21,724
Mortgage-backed securities, multifamily	**1,421**		**(13)**	**1,408**				
Obligations of states and political subdivisions	**38,801**	**1,068**	**(68)**	**39,801**	40,559	1,305	(9)	41,855
Other debt securities	**1,549**	**201**		**1,750**	1,559	72	(75)	1,556
	$ 96,925	**$ 2,967**	**$ (108)**	**$ 99,784**	$ 71,700	$ 2,659	$ (85)	$ 74,274

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

	December 31, 2012			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$ 7,828	$ 7,858	$ 14,416	$ 14,471
Due after one year through five years	55,793	56,460	13,872	14,555
Due after five years through ten years	69,135	70,764	24,956	25,833
Due after ten years	3,670	3,553	3,195	3,166
	136,426	138,635	56,439	58,025
Mortgage-backed securities	235,052	239,559	40,486	41,759
Equity securities	14,984	15,516		
Total securities	$ 386,462	$ 393,710	$ 96,925	$ 99,784

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

	Years ended December 31,		
	2012	2011	2010
	(in thousands)		
Sale proceeds	**$ 97,824**	$ 92,409	$ 76,048
Gross gains	**1,364**	1,285	1,752
Gross losses	**(315)**	(56)	(10)

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 $328.4 million and $343.7 million at December 31, 2012 and 2011, respectively, were pledged to secure public deposits and for other purposes required by applicable laws and regulations.

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The following table indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2012 and 2011:

December 31, 2012	Less than 12 months Fair value	Less than 12 months Unrealized Losses	12 months or longer Fair value	12 months or longer Unrealized Losses	Number of securities	Total Fair value	Total Unrealized Losses
			(dollars in thousands)				
AVAILABLE FOR SALE							
U.S. government agencies	$ 3,992	$ 8	$	$	1	$ 3,992	$ 8
Mortgage-backed securities, residential	30,359	572	3,239	7	10	33,598	579
Obligations of states and political subdivisions	2,825	60			7	2,825	60
Other debt securities			5,661	321	2	5,661	321
Equity securities	4,621	76			2	4,621	76
	$ 41,797	$ 716	$ 8,900	$ 328	22	$ 50,697	$ 1,044
HELD TO MATURITY							
Mortgage-backed securities, residential	$ 1,239	$ 27	$	$	1	$ 1,239	$ 27
Mortgage-backed securities, multifamily	1,408	13			1	1,408	13
Obligations of states and political subdivisions	3,705	63	371	5	10	4,076	68
	$ 6,352	$ 103	$ 371	$ 5	12	$ 6,723	$ 108

December 31, 2011	Less than 12 months Fair value	Less than 12 months Unrealized Losses	12 months or longer Fair value	12 months or longer Unrealized Losses	Number of securities	Total Fair value	Total Unrealized Losses
			(dollars in thousands)				
AVAILABLE FOR SALE							
U.S. government agencies	$	$	$	$	0	$	$
Mortgage-backed securities, residential	81,067	398	9,201	30	23	90,268	428
Obligations of states and political subdivisions	2,171	9	20		5	2,191	9
Other debt securities	467	12	5,645	1,308	4	6,112	1,320
Equity securities	5,043	50			4	5,043	50
	$ 88,748	$ 469	$ 14,866	$ 1,338	36	$ 103,614	$ 1,807
HELD TO MATURITY							
Mortgage-backed securities, residential	$ 1,513	$ 1	$	$	1	$ 1,513	$ 1
Obligations of states and political subdivisions	790	2	395	7	4	1,185	9
Other debt securities	957	75			2	957	75
	$ 3,260	$ 78	$ 395	$ 7	7	$ 3,655	$ 85

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

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

The credit ratings of the underlying issuer and if any changes in the credit rating have occurred;

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

If the above factors indicate the additional analysis is required, management will consider the results of discounted cash flow analysis.

As of December 31, 2012, the equity securities include investments in other financial institutions for market appreciation purposes. These equities had a net amortized cost of $2.0 million and market value of $2.4 million as of December 31, 2012.

As of December 31, 2012, equity securities also included $13.1 million in investment funds that do not have a quoted market price but use net asset value per share or its equivalent to measure fair value.

The funds include $2.9 million in funds that are primarily invested in community development loans that are guaranteed by the Small Business Administration (SBA). Because the funds are primarily guaranteed by the federal government there are minimal changes in market value between accounting periods. These funds can be redeemed within 60 days notice at the net asset value less unpaid management fees with the approval of the fund manager. As of December 31, 2012, the net amortized cost equaled the market value of the investment. There are no unfunded commitments related to this investment.

The funds also include $10.2 million in funds that are invested in government guaranteed loans, mortgage-backed securities, small business loans and other instruments supporting affordable housing and economic development. The Company may redeem these funds at the net asset value calculated at the end of the current business day less any unpaid management fees. As of December 31, 2012, the amortized cost of these securities was $10.1 million and the fair value was $10.2 million. There are no restrictions on redemptions for the holdings in these investments other than the notice required by the fund manager. There are no unfunded commitments related to this investment.

NOTE 3 LOANS AND LEASES

The following sets forth the composition of Lakeland s loan and lease portfolio for the years ended December 31, 2012 and 2011:

	December 31,	
	2012	**2011**
	(in thousands)	
Commercial, secured by real estate	**$ 1,125,137**	$ 1,012,982
Commerical, industrial and other	**216,129**	209,915
Leases	**26,781**	28,879
Real estate-residential mortgage	**423,262**	406,222
Real estate-construction	**46,272**	79,138
Home equity and consumer	**309,626**	304,190
Total loans and leases	**2,147,207**	2,041,326
Plus deferred costs (fees)	**(364)**	249
Loans and leases, net of deferred costs (fees)	**$ 2,146,843**	$ 2,041,575

As of December 31, 2012 and 2011, Home Equity and Consumer loans included overdraft deposit balances of $532,000 and $1.1 million, respectively.

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Portfolio Segments

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

Commercial, secured by real estate consists of commercial mortgage loans secured by owner occupied properties and non-owner occupied properties. The loans secured by owner occupied properties involve a variety of property types to conduct the borrower s operations. The primary source of repayment for this type of loan is the cash flow from the business and is based upon the borrower s financial health and the ability of the borrower and the business to repay. The loans secured by non-owner occupied properties involve investment properties for warehouse, retail, office space, etc., with a history of occupancy and cash flow. This commercial real estate category contains mortgage loans to the developers and owners of commercial real estate where the borrower intends to operate or sell the property at a profit and use the income stream or proceeds from the sale(s) to repay the loan.

Commercial, industrial and other are loans made to provide funds for equipment and general corporate needs. Repayment of a loan primarily uses the funds obtained from the operation of the borrower s business. Commercial loans also include lines of credit that are utilized to finance a borrower s short-term credit needs and/or to finance a percentage of eligible receivables and inventory.

Leases includes a small portfolio of equipment leases, which consists of leases primarily for essential equipment used by small to medium sized businesses.

Real estate residential mortgage contains permanent mortgage loans principally to consumers secured by residential real estate. Residential real estate loans are evaluated for the adequacy of repayment sources at the time of approval, based upon measures including credit scores, debt-to-income ratios, and collateral values. Loans may be either conforming or non-conforming.

Real estate-construction construction loans, as defined, are intended to finance the construction of commercial properties and include loans for the acquisition and development of land. Construction loans represent a higher degree of risk than permanent real estate loans and may be affected by a variety of factors such as the borrower s ability to control costs and adhere to time schedules and the risk that constructed units may not be absorbed by the market within the anticipated time frame or at the anticipated price. The loan commitment on these loans often includes an interest reserve that allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan.

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

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Non-accrual and Past Due Loans

The following schedule sets forth certain information regarding the Company s non-accrual loans and leases, its other real estate owned and other repossessed assets, and accruing troubled debt restructurings:

(in thousands)	At December 31, 2012	2011
Commercial, secured by real estate	**$ 10,511**	$ 16,578
Commercial, industrial and other	**1,476**	4,608
Leases	**32**	575
Real estate residential mortgage	**8,733**	11,610
Real estate construction	**4,031**	12,393
Home equity and consumer	**3,197**	3,252
Total non-accrual loans and leases	**27,980**	49,016
Other real estate and other repossessed assets	**529**	1,182
TOTAL NON-PERFORMING ASSETS	**$ 28,509**	$ 50,198
Troubled debt restructurings, still accruing	**$ 7,336**	$ 8,856

Non-accrual loans included $3.4 million and $4.6 million of troubled debt restructurings for the years ended December 31, 2012 and 2011, respectively.

An age analysis of past due loans, segregated by class of loans as of December 31, 2012 and 2011 is as follows:

December 31, 2012	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans and Leases	Recorded Investment greater than 89 Days and still accruing
				(in thousands)			
Commercial, secured by real estate	**$ 3,831**	**$ 2,308**	**$ 10,511**	**$ 16,650**	**$ 1,108,487**	**$ 1,125,137**	**$**
Commercial, industrial and other	**400**	**171**	**1,476**	**2,047**	**214,082**	**216,129**	
Leases	**367**	**36**	**32**	**435**	**26,346**	**26,781**	
Real estate residential mortgage	**2,370**	**821**	**10,012**	**13,203**	**410,059**	**423,262**	**1,279**
Real estate construction	**1,100**		**4,031**	**5,131**	**41,141**	**46,272**	
Home equity and consumer	**2,479**	**363**	**3,355**	**6,197**	**303,429**	**309,626**	**158**
	$ 10,547	**$ 3,699**	**$ 29,417**	**$ 43,663**	**$ 2,103,544**	**$ 2,147,207**	**$ 1,437**

December 31, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans and Leases	Recorded Investment greater than 89 Days and still accruing
				(in thousands)			
Commercial, secured by real estate	$ 3,638	$ 1,731	$ 16,578	$ 21,947	$ 991,035	$ 1,012,982	$
Commercial, industrial and other	512	49	4,608	5,169	204,746	209,915	
Leases	397	164	575	1,136	27,743	28,879	
Real estate residential mortgage	3,059	1,235	12,818	17,112	389,110	406,222	1,208
Real estate construction			12,393	12,393	66,745	79,138	
Home equity and consumer	2,350	448	3,411	6,209	297,981	304,190	159

	$ 9,956	$ 3,627	$ 50,383	$ 63,966	$ 1,977,360	$ 2,041,326	$ 1,367

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Impaired Loans

Impaired loans for the year ended December 31, 2012, 2011 and 2010 are as follows:

December 31, 2012	Recorded Investment in Impaired loans	Contractual Unpaid Principal Balance	Specific Allowance (in thousands)	Interest Income Recognized	Average Investment in Impaired loans
Loans without specific allowance:					
Commercial, secured by real estate	$ 16,458	$ 21,665	$	$ 495	$ 18,301
Commercial, industrial and other	4,896	4,932		116	3,838
Leases					
Real estate-residential mortgage	360	360		6	385
Real estate-construction	3,332	4,433			5,533
Home equity and consumer	369	369		1	360
Loans with specific allowance:					
Commercial, secured by real estate	3,346	4,088	368	46	3,825
Commercial, industrial and other	808	871	219	1	769
Leases					
Real estate-residential mortgage	288	288	43	4	374
Real estate-construction	698	1,085	97		1,445
Home equity and consumer	976	976	146	55	934
Total:					
Commercial, secured by real estate	$ 19,804	$ 25,753	$ 368	$ 541	$ 22,126
Commercial, industrial and other	5,704	5,803	219	117	4,607
Leases					
Real estate residential mortgage	648	648	43	10	759
Real estate-construction	4,030	5,518	97		6,978
Home equity and consumer	1,345	1,345	146	56	1,294
	$ 31,531	$ 39,067	$ 873	$ 724	$ 35,764

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December 31, 2011	Recorded Investment in Impaired loans	Contractual Unpaid Principal Balance	Specific Allowance (in thousands)	Interest Income Recognized	Average Investment in Impaired loans
Loans without specific allowance:					
Commercial, secured by real estate	$ 19,648	$ 24,922	$	$ 332	$ 14,792
Commercial, industrial and other	4,074	8,155			3,445
Leases					
Real estate-residential mortgage	415	415		29	542
Real estate-construction	12,400	16,353		14	11,231
Home equity and consumer	400	485		1	14
Loans with specific allowance:					
Commercial, secured by real estate	3,920	6,421	392	18	6,209
Commercial, industrial and other	534	647	172		768
Leases					
Real estate-residential mortgage	561	570	75	19	332
Real estate-construction	244	518	24		333
Home equity and consumer	949	963	142	34	800
Total:					
Commercial, secured by real estate	$ 23,568	$ 31,343	$ 392	$ 350	$ 21,001
Commercial, industrial and other	4,608	8,802	172		4,213
Leases					
Real estate residential mortgage	976	985	75	48	874
Real estate-construction	12,644	16,871	24	14	11,564
Home equity and consumer	1,349	1,448	142	35	814
	$ 43,145	$ 59,449	$ 805	$ 447	$ 38,466

December 31, 2010	Recorded Investment in Impaired loans	Contractual Unpaid Principal Balance	Specific Allowance (in thousands)	Interest Income Recognized	Average Investment in Impaired loans
Loans without specific allowance:					
Commercial, secured by real estate	$ 14,176	$ 19,083	$	$ 206	$ 11,551
Commercial, industrial and other	513	530			375
Leases, including leases held for sale					
Real estate-residential mortgage	969	969		30	776
Real estate-construction	7,302	8,330		9	3,195
Home equity and consumer					123
Loans with specific allowance:					
Commercial, secured by real estate	3,992	5,191	403	6	11,180
Commercial, industrial and other	1,243	1,400	511	2	2,485
Leases, including leases held for sale	91	91	49		114
Real estate-residential mortgage	397	397	60	6	347
Real estate-construction	69	309	7		1,005
Home equity and consumer	1,249	1,249	103	41	529
Total:					
Commercial, secured by real estate	$ 18,168	$ 24,274	$ 403	$ 212	$ 22,731
Commercial, industrial and other	1,756	1,930	511	2	2,860
Leases, including leases held for sale	91	91	49		114
Real estate residential mortgage	1,366	1,366	60	36	1,123
Real estate-construction	7,371	8,639	7	9	4,200
Home equity and consumer	1,249	1,249	103	41	652

$ 30,001	$ 37,549	$ 1,133	$ 300	$ 31,680

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Interest which would have been accrued on impaired loans and leases during 2012, 2011 and 2010 was $2.8 million, $2.9 million and $2.2 million, respectively.

Credit Quality Indicators

The class of loan and leases are determined by internal risk rating. Management closely and continually monitors the quality of its loans and leases and assesses the quantitative and qualitative risks arising from the credit quality of its loans and leases. It is the policy of Lakeland to require that a Credit Risk Rating be assigned to all commercial loans and loan commitments. The Credit Risk Rating System has been developed by management to provide a methodology to be used by Loan Officers, department heads and Senior Management in identifying various levels of credit risk that exist within Lakeland s loan portfolios. The risk rating system assists Senior Management in evaluating Lakeland s loan portfolio, analyzing trends, and determining the proper level of required reserves to be recommended to the Board. In assigning risk ratings, management considers, among other things, a borrower s debt service coverage, earnings strength, loan to value ratios, industry conditions and economic conditions. Management categorizes loans and commitments into a one (1) to nine (9) numerical structure with rating 1 being the strongest rating and rating 9 being the weakest. Ratings 1 through 5W are considered Pass ratings.

The following table shows the Company s commercial loan portfolio as of December 31, 2012 and 2011, by the risk ratings discussed above (in thousands):

December 31, 2012

Risk Rating	**Commercial, secured by real estate**	**Commercial, Industrial and other**	**Real estate-construction**
1	**$**	**$ 996**	**$**
2		**12,899**	
3	**44,448**	**15,676**	
4	**350,145**	**62,676**	**795**
5	**623,912**	**88,033**	**34,682**
5W Watch	**43,515**	**13,261**	
6 Other Assets Especially Mentioned	**21,132**	**2,845**	**6,535**
7 Substandard	**41,817**	**19,743**	**4,260**
8 Doubtful	**168**		
9 Loss			
Total	**$ 1,125,137**	**$ 216,129**	**$ 46,272**

December 31, 2011

Risk Rating	**Commercial, secured by real estate**	**Commercial, Industrial and other**	**Real estate-construction**
1	$	$	$
2		11,323	
3	26,085	17,658	11,175
4	301,490	48,835	14,185
5	575,061	95,040	36,088
5W Watch	31,648	9,346	198
6 Other Assets Especially Mentioned	30,666	11,708	2,315
7 Substandard	47,861	16,005	14,866
8 Doubtful	171	0	311
9 Loss			
Total	$ 1,012,982	$ 209,915	$ 79,138

This table does not include consumer or residential loans or leases because they are evaluated on their performing status.

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Allowance for Loan and Lease Losses

The following table details activity in the allowance for loan and lease losses by portfolio segment and the related recorded investment in loans and leases for the year ended December 31, 2012, 2011 and 2010:

12/31/2012	Commercial, secured by real estate	Commercial, industrial and other	Leases	Real estate-residential mortgage (in thousands)	Real estate-Construction	Home equity and consumer	Total
Allowance for Loan and Lease Losses:							
Beginning Balance	$ 16,618	$ 3,477	$ 688	$ 3,077	$ 1,424	$ 3,132	$ 28,416
Charge-offs	(7,287)	(949)	(999)	(1,822)	(2,888)	(2,074)	(16,019)
Recoveries	280	428	504	66	43	306	1,627
Provision	6,647	2,147	385	2,247	2,008	1,473	14,907
Ending Balance	$ 16,258	$ 5,103	$ 578	$ 3,568	$ 587	$ 2,837	$ 28,931
Ending Balance: Individually evaluated for impairment	$ 368	$ 219		$ 43	$ 97	$ 146	$ 873
Ending Balance: Collectively evaluated for impairment	15,890	4,884	578	3,525	490	2,691	$ 28,058
Ending Balance	$ 16,258	$ 5,103	$ 578	$ 3,568	$ 587	$ 2,837	$ 28,931
Loans and Leases:							
Ending Balance: Individually evaluated for impairment	$ 19,804	$ 5,704		$ 648	$ 4,030	$ 1,345	$ 31,531
Ending Balance: Collectively evaluated for impairment	1,105,333	210,425	26,781	422,614	42,242	308,281	$ 2,115,676
Ending Balance(1)	$ 1,125,137	$ 216,129	$ 26,781	$ 423,262	$ 46,272	$ 309,626	$ 2,147,207

(1) Excludes deferred costs

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12/31/2011	Commercial, secured by real estate	Commercial, industrial and other	Leases	Real estate-residential mortgage (in thousands)	Real estate-Construction	Home equity and consumer	Total
Allowance for Loan and Lease Losses:							
Beginning Balance	$ 11,366	$ 5,113	$ 3,477	$ 2,628	$ 2,176	$ 2,571	$ 27,331
Charge-offs	(5,352)	(5,249)	(2,858)	(1,772)	(3,636)	(3,010)	(21,877)
Recoveries	2,084	439	1,206	32	67	318	4,146
Provision	8,520	3,174	(1,137)	2,189	2,817	3,253	18,816
Ending Balance	$ 16,618	$ 3,477	$ 688	$ 3,077	$ 1,424	$ 3,132	$ 28,416
Ending Balance: Individually evaluated for impairment	$ 392	$ 172	$ 0	$ 75	$ 24	$ 142	$ 805
Ending Balance: Collectively evaluated for impairment	16,226	3,305	688	3,002	1,400	2,990	$ 27,611
Ending Balance	$ 16,618	$ 3,477	$ 688	$ 3,077	$ 1,424	$ 3,132	$ 28,416
Loans and Leases:							
Ending Balance: Individually evaluated for impairment	$ 23,568	$ 4,608	$ 0	$ 976	$ 12,644	$ 1,349	$ 43,145
Ending Balance: Collectively evaluated for impairment	989,414	205,307	28,879	405,246	66,494	302,841	$ 1,998,181
Ending Balance(1)	$ 1,012,982	$ 209,915	$ 28,879	$ 406,222	$ 79,138	$ 304,190	$ 2,041,326

(1) Excludes deferred costs

12/31/2010	Commercial, secured by real estate	Commercial, industrial and other	Leases	Real estate-residential mortgage (in thousands)	Real estate-Construction	Home equity and consumer	Total
Allowance for Loan and Lease Losses:							
Beginning Balance	$ 9,285	$ 4,647	$ 4,308	$ 1,286	$ 3,198	$ 2,839	$ 25,563
Charge-offs	(7,510)	(3,298)	(4,307)	(397)	(1,756)	(2,250)	(19,518)
Recoveries	134	62	1,391	7		411	2,005
Provision	9,457	3,702	2,085	1,732	734	1,571	19,281
Ending Balance	$ 11,366	$ 5,113	$ 3,477	$ 2,628	$ 2,176	$ 2,571	$ 27,331
Ending Balance: Individually evaluated for impairment	$ 403	$ 511	$ 49	$ 60	$ 7	$ 103	$ 1,133
Ending Balance: Collectively evaluated for impairment	10,963	4,602	3,428	2,568	2,169	2,468	$ 26,198
Ending Balance	$ 11,366	$ 5,113	$ 3,477	$ 2,628	$ 2,176	$ 2,571	$ 27,331
Loans and Leases:							
Ending Balance: Individually evaluated for impairment	$ 18,168	$ 1,756	$ 91	$ 1,366	$ 7,371	$ 1,249	$ 30,001
	952,072	192,503	65,549	402,195	63,404	305,073	$ 1,980,796

Ending Balance: Collectively evaluated for impairment							
Ending Balance(1)	$ 970,240	$ 194,259	$ 65,640	$ 403,561	$ 70,775	$ 306,322	$ 2,010,797

(1) Excludes leases held for sale and deferred costs

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Lakeland also maintains a reserve for unfunded lending commitments which are included in other liabilities. This reserve was $1,108,000 and $1,015,000 at December 31, 2012 and December 31, 2011, respectively. The Company analyzes the adequacy of the reserve for unfunded lending commitments in conjunction with its analysis of the adequacy of the allowance for loan and lease losses. For more information on this analysis, see Risk Elements in Management s Discussion and Analysis.

Troubled Debt Restructurings

Troubled debt restructurings are those loans where significant concessions have been made due to borrowers financial difficulties. 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 Company considers the potential losses on these loans as well as the remainder of its impaired loans when considering the adequacy of the allowance for loan losses.

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

	For the year ended December 31, 2012			For the year ended December 31, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)			(Dollars in thousands)		
Troubled Debt Restructurings:						
Commercial, secured by real estate	**10**	**$ 2,231**	**$ 2,231**	14	$ 5,414	$ 5,021
Commercial, industrial and other	**6**	**4,421**	**4,421**	1	63	37
Leases						
Real estate residential mortgage				2	476	475
Real estate construction						
Home equity and consumer	**1**	**55**	**55**	5	901	885
	17	**$ 6,707**	**$ 6,707**	22	$ 6,854	$ 6,418

The following table summarizes as of December 31, 2012, loans that were restructured within the last 12 months that have subsequently defaulted:

	For the year ended December 31, 2012		For the year ended December 31, 2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)		(Dollars in thousands)	
Defaulted Troubled Debt Restructurings:				
Commercial, secured by real estate	**2**	**$ 272**	4	$ 1,550
Commercial, industrial and other	**1**	**142**		
Leases				
Real estate residential mortgage			1	173
Real estate construction				
Home equity and consumer			1	400
	3	**$ 414**	6	$ 2,123

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, 2012, loans to these related parties amounted to $27.8 million. There were new loans of $8.8 million to related parties and repayments of $8.6 million from related parties in 2012.

Leases Held for Sale

Lakeland had no leases held for sale on December 31, 2012 and 2011. During the first quarter of 2011, management reclassified $1.5 million of leases held for sale to held for investment because management s intent regarding these leases had changed. During 2010, the Company sold leases with a carrying value of $1.1 million for $1.0 million and recorded a loss of $61,000. The following table shows the components of gains on leasing related assets for the periods presented:

	For the years ended December 31,		
(in thousands)	**2012**	**2011**	**2010**
Gains (losses) on sales of leases	**$**	$ 143	$ (61)
Mark-to-market adjustment on held for sale leases			
Realized gains on paid off leases	**471**	883	833
Gains (losses) on sales of other repossessed assets	**4**	(52)	808
Total gains on leasing related assets	**$ 475**	$ 974	$ 1,580

Gains (losses) on held for sale leasing assets are included in gain (loss) on leasing related assets along with other miscellaneous leasing income typically recorded in Lakeland s leasing business.

Future minimum lease payments of lease receivables (including leases held for sale) are as follows (in thousands):

2013	$ 10,831
2014	7,373
2015	4,982
2016	2,702
2017	876
thereafter	17
	$ 26,781

Other Real Estate and Other Repossessed Assets

At December 31, 2012, the Company had other repossessed assets and other real estate owned of $452,000 and $77,000, respectively. At December 31, 2011, the Company had other repossessed assets and other real estate owned of $236,000 and $946,000, respectively. For the years ended December 31, 2012, 2011 and 2010, the Company had writedowns of $0, $230,000 and $0, respectively, on other real estate and other repossessed assets which are included in other real estate and repossessed asset expense in the Statement of Operations.

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NOTE 4 PREMISES AND EQUIPMENT

	Estimated useful lives	December 31, 2012	December 31, 2011
		(in thousands)	
Land	Indefinite	**$ 5,245**	$ 5,418
Buildings and building improvements	10 to 50 years	**30,818**	32,393
Leasehold improvements	10 to 25 years	**8,405**	2,390
Furniture, fixtures and equipment	2 to 30 years	**31,443**	28,912
		75,911	69,113
Less accumulated depreciation and amortization		**42,631**	41,196
		$ 33,280	$ 27,917

Depreciation expense was $3.1 million, $2.9 million and $3.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

NOTE 5 DEPOSITS

At December 31, 2012, the schedule of maturities of certificates of deposit is as follows (in thousands):

Year	
2013	$ 231,326
2014	44,577
2015	16,642
2016	10,220
2017	183
Thereafter	844
	$ 303,792

NOTE 6 DEBT

Lines of Credit

As a member of the Federal Home Loan Bank of New York (FHLB), Lakeland has the ability to borrow overnight based on the market value of collateral pledged. As of December 31, 2012 and 2011, there were no overnight borrowings from the FHLB. As of December 31, 2012, the Company also had overnight federal funds lines available for it to borrow up to $162.0 million. The Company had borrowed $72.0 and $28.0 million against these lines as of December 31, 2012 and 2011, respectively. The Company 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, 2012 or 2011.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

Short-term borrowings at December 31, 2012 and 2011 consisted of short-term securities sold under agreements to repurchase and federal funds purchased. Securities underlying the agreements were under Lakeland s control. The following tables summarize information relating to securities sold under agreements to repurchase and federal funds purchased for the years presented. For purposes of the tables, the average amount outstanding was calculated based on a daily average.

	2012	2011	2010
		(dollars in thousands)	
Federal funds purchased:			
Balance at December 31	**$ 72,000**	$ 28,000	$ 5,500
Interest rate at December 31	**0.37%**	0.32%	0.50%
Maximum amount outstanding at any month-end during the year	**$ 72,000**	$ 35,750	$ 20,900
Average amount outstanding during the year	**$ 15,147**	$ 6,674	$ 3,190
Weighted average interest rate during the year	**0.35%**	0.41%	0.46%

	2012	2011	2010
		(dollars in thousands)	
Securities sold under agreements to repurchase:			
Balance at December 31	**$ 45,289**	$ 44,131	$ 46,623
Interest rate at December 31	**0.05%**	0.09%	0.14%
Maximum amount outstanding at any month-end during the year	**$ 49,863**	$ 60,818	$ 81,873
Average amount outstanding during the year	**$ 44,434**	$ 52,566	$ 59,584
Weighted average interest rate during the year	**0.06%**	0.12%	0.19%

Other Borrowings

FHLB Debt

At December 31, 2012, advances from the FHLB totaling $25.0 million will mature within five to six years and are reported as other borrowings. These advances are collateralized by certain securities and first mortgage loans. The advances had a weighted average interest rate of 3.73%. In the fourth quarter of 2012, the Company prepaid $10.0 million of its FHLB debt that had a weighted rate of 3.93% and incurred a prepayment penalty of $782,000.

FHLB debt matures as follows (in thousands):

2013	$
2014	
2015	
2016	
2017	10,000
Thereafter	15,000
	$ 25,000

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Long-term Securities Sold Under Agreements to Repurchase

At December 31, 2012, the Company had $60.0 million in long-term securities sold under agreements to repurchase. These securities were able to be called at various dates starting in 2009. These advances are collateralized by certain securities. The advances had a weighted average interest rate of 2.59 %. These long-term securities sold under agreements to repurchase mature as follows (in thousands):

2013	$
2014	
2015	10,000
2016	10,000
2017	10,000
Thereafter	30,000
	$ 60,000

The above FHLB debt and long-term securities sold under agreements to repurchase are collateralized by certain securities. At times the market value of securities collateralizing our borrowings 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 securities to meet that margin call.

Subordinated Debentures

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

In December 2003, the Company issued $25.8 million of junior subordinated debentures due January 7, 2034 to Lakeland Bancorp Capital Trust III, a Delaware business trust. The distribution rate on these securities was 7.535% for 10 years and floats at LIBOR plus 285 basis points thereafter. The debentures are the sole asset of the Trust. The Trust issued 25,000 shares of trust preferred securities, $1,000 face value, for total proceeds of $25.0 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 January 7, 2009, 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. On October 7, 2012 the Company redeemed the $25.8 million in junior subordinated debentures. At the time of redemption the debentures had a coupon rate of 7.535% and were due on January 7, 2034. The capital and common securities issued by the Trust in December 2003 were also redeemed.

In June 2003, the Company issued $10.3 million of junior subordinated debentures due July 7, 2033 to Lakeland Bancorp Capital Trust I, a Delaware business trust. The distribution rate on these securities was 6.20% for 7 years and floats at LIBOR plus 310 basis points thereafter. The debentures are the sole asset of the Trust. The Trust issued 10,000 shares of trust preferred securities, $1,000 face value, for total proceeds of $10.0 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 July 7, 2010, 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 2003, the Company also issued $20.6 million of junior subordinated debentures due June 30, 2033 to Lakeland Bancorp Capital Trust II, a Delaware business trust. The distribution rate on these securities was 5.71% for 5 years and floats at LIBOR plus 310 basis points thereafter. The debentures are the sole asset of the Trust. The Trust issued 20,000 shares of trust preferred securities, $1,000 face value, for total proceeds of $20.0 million. The Company s obligations under the debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the Trust s obligations under the preferred securities. The preferred securities are callable by the Company on or after June 30, 2008, or earlier if the deduction of related interest for federal income taxes is prohibited, treatment as Tier I capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2033.

NOTE 7 STOCKHOLDERS EQUITY

On September 4, 2012, the Company issued and sold an aggregate of 2,667,253 shares of common stock at a price of $9.65 per share pursuant to a takedown off of the Company s shelf registration statement. The Company received net proceeds of $25.0 million which it used to repay $25.8 million in junior subordinated debentures on October 7, 2012. See Note 6 for further details.

On March 19, 2012, the Company s Board of Directors authorized a 5% stock dividend which was distributed on April 16, 2012, to holders of record as of March 30, 2012. On January 14, 2011, the Company s Board of Directors authorized a 5% stock dividend which was distributed on February 16, 2011, to holders of record as of January 31, 2011.

On February 6, 2009, under the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP), the Company issued 59,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Series A preferred stock) to the U.S. Department of the Treasury (the U.S. Treasury) for a purchase price of $59.0 million. The Series A preferred stock has a 5% annual dividend rate for the first five years and a 9% annual dividend thereafter if the Series A preferred stock are not redeemed by the Company. The Company may redeem the Series A preferred stock with the consent of the Treasury Department in conjunction with the Company s primary regulator at any time.

In conjunction with the issuance of our Series A preferred stock, the Company also issued a warrant to purchase 1,046,901 shares of the Company s common stock to the U.S. Treasury. The warrant has a 10-year term and is immediately exercisable at an exercise price, subject to anti-dilution adjustments, of $8.45 per share.

The proceeds from the U.S. Treasury were allocated to the Series A preferred stock and the warrant based on their relative fair values. The fair value of the Series A preferred stock was determined through a discounted future cash flow model. The Company calculated the fair value of the Series A preferred stock by using a 14% discount rate and discounting the cash flows over a 10 year period. A Black-Scholes pricing model was used to calculate the fair value of the warrant. The Black-Scholes model used the following assumptions, a dividend yield of 5.12%, volatility of 32% and a risk-free interest rate of 3.05%.

A $3.3 million discount was being amortized over a five year period using a level yield method. The effective yield on the amortization of the Series A preferred stock is approximately 6.36%. In determining net income (loss) available to common shareholders, the periodic amortization and the cash dividend on the Series A preferred stock are subtracted from net income (loss).

On August 4, 2010, the Company redeemed 20,000 shares of its Series A preferred stock. The Company paid to the Treasury $20.2 million, which included $20.0 million of principal and $219,000 in accrued and unpaid dividends, on August 4, 2010. As a result of the early payment, the Company also accelerated the accretion of $898,000 of the preferred stock discount. On March 16, 2011, the Company redeemed 20,000 shares of Series A Preferred Stock. The Company paid to the Treasury $20.1 million, which included $20.0 million of principal and $86,000 in accrued and unpaid dividends, on March 16, 2011. As a result of the early payment, the Company also accelerated the accretion of $745,000 of the preferred stock discount. The above mentioned warrant issued to the U.S. Treasury remained outstanding.

On February 8, 2012, the Company redeemed its remaining 19,000 shares of its Series A Preferred Stock. The Company paid to the Treasury $19.2 million, which included $19.0 million of principal and $219,000 in accrued and unpaid dividends, on February 8, 2012. As a result of the early payment, the Company also accelerated the accretion of $501,000 of the preferred stock discount.

On February 29, 2012, the Company repurchased the outstanding common stock warrant for the purchase of 1,046,901 shares of its common stock, for $2.8 million, completing the Company s participation in the Treasury s CPP. Upon repurchase, the common stock warrant had a carrying value of $3.3 million. The repurchase price of $2.8 million was recorded as a reduction to common stock on the statement of changes in stockholders equity.

NOTE 8 SHAREHOLDER PROTECTION RIGHTS PLAN

The Company adopted a Shareholder Rights Plan (the Rights Plan) in 2001 to protect shareholders from attempts to acquire control of the Company at an inadequate price. Under the Rights Plan, the Company distributed a dividend of one right to purchase a unit of common stock on each outstanding common share of the Company. The rights were not exercisable or transferable, and no separate certificates evidencing such rights were to be distributed, unless certain events occur. The rights expired on September 4, 2011.

The Rights Plan was not adopted in response to any specific effort to acquire control of the Company. The issuance of rights had no dilutive effect, did not affect the Company s reported earnings per share, and was not taxable to the Company or its shareholders.

NOTE 9 INCOME TAXES

The components of income taxes are as follows:

	Years Ended December 31,		
	2012	**2011**	**2010**
		(in thousands)	
Current tax provision	**$ 9,520**	$ 8,540	$ 9,578
Deferred tax provision	**576**	172	547
Total provision for income taxes	**$ 10,096**	$ 8,712	$ 10,125

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

	Years Ended December 31,		
	2012	2011	2010
		(in thousands)	
Federal income tax , at statutory rates	**$ 11,143**	$ 9,999	$ 10,270
Increase (deduction) in taxes resulting from:			
Non-taxable interest income	**(1,296)**	(1,387)	(1,407)
State income tax, net of federal income tax effect	**192**	246	1,387
Other, net	**57**	(146)	(125)
Provision for income taxes	**$ 10,096**	$ 8,712	$ 10,125

The net deferred tax asset consisted of the following:

	December 31,	
	2012	2011
	(in thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	**$ 12,271**	$ 12,023
Valuation reserves for land held for sale and other real estate		679
Non-accrued interest	**627**	657
Deferred compensation	**1,357**	1,288
Other than temporary impairment loss on investment securities	**374**	374
Unfunded pension benefits	**298**	308
Other, net	**946**	691
Deferred tax assets	**15,873**	16,020
Deferred tax liabilities:		
Core deposit intangible from acquired companies		58
Deferred loan costs	**1,365**	1,336
Prepaid expenses	**377**	332
Depreciation and amortization	**1,172**	706
Deferred gain on securities	**194**	194
Unrealized gains on securities available for sale	**2,695**	2,093
Other	**531**	575
Deferred tax liabilities	**6,334**	5,294
Net deferred tax assets, included in other assets	**$ 9,539**	$ 10,726

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, 2012 will be realized.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits are as follows:

(in thousands)	2012	2011
Balance at January 1	$ 252	$ 474
Additions for tax positions of prior years	22	39
Reductions for tax positions resulting from lapse of statute of limitations	(106)	(195)
Settlements		(66)
Balance at December 31	$ 168	$ 252

The amount of unrecognized tax benefits as of December 31, 2012 and 2011, was $158,000 and $241,000, respectively, all of which, if ultimately recognized, would reduce the Company s annual effective tax rate.

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 2009 or to state and local examinations by tax authorities for the years before 2008.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense for all periods presented. The Company had accrued approximately $19,000 and $43,000 for the payment of interest and penalties at December 31, 2012 and 2011, respectively.

NOTE 10 EARNINGS PER SHARE

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

	Year ended December 31, 2012		
	Income (numerator)	Shares (denominator)	Per share amount
	(in thousands, except per share amounts)		
Basic earnings per share			
Net income available to common shareholders	**$ 21,122**	**27,619**	**$ 0.76**
Less: earnings allocated to participating securities	**181**		**0.00**
Net income available to common shareholders	**$ 20,941**	**27,619**	**$ 0.76**
Effect of dilutive securities			
Stock options and restricted stock		**73**	
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	**$ 20,941**	**27,692**	**$ 0.76**

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Options to purchase 448,137 shares of common stock at a weighted average of $12.56 per share were not included in the computation of diluted earnings per share because the option price and the grant date price were greater than the average market price during the period.

	Year ended December 31, 2011		
	Income (numerator)	Shares (denominator)	Per share amount
	(in thousands, except per share amounts)		
Basic earnings per share			
Net income available to common shareholders	$ 17,684	26,572	$ 0.67
Less: earnings allocated to participating securities	130		0.01
Net income available to common shareholders	$ 17,554	26,572	$ 0.66
Effect of dilutive securities			
Stock options and restricted stock		109	
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	$ 17,554	26,681	$ 0.66

Options to purchase 598,477 shares of common stock and 19,893 shares of restricted stock at a weighted average of $12.57 and $11.52 per share, respectively, were not included in the computation of diluted earnings per share because the option and warrant exercise price and the grant date price were greater than the average market price during the period.

	Year ended December 31, 2010		
	Income (numerator)	Shares (denominator)	Per share amount
	(in thousands, except per share amounts)		
Basic earnings per share			
Net income available to common shareholders	$ 15,224	26,352	$ 0.58
Less: earnings allocated to participating securities	80		0.01
Net income available to common shareholders	$ 15,144	26,352	$ 0.57
Effect of dilutive securities			
Stock options, restricted stock and a warrant		32	
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	$ 15,144	26,384	$ 0.57

Options to purchase 737,275 shares of common stock, a warrant to purchase 1,046,901 shares of common stock and 46,999 shares of restricted stock at a weighted average of $12.35, $8.45 and $11.42 per share, respectively, were not included in the computation of diluted earnings per share because the option and warrant exercise price and the grant date price were greater than the average market price during the period.

NOTE 11 EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

The Company has a profit sharing plan for all its eligible employees. The Company s annual contribution to the plan is determined by its Board of Directors. Annual contributions are allocated to participants on a point basis with accumulated benefits payable at retirement, or, at the discretion of the plan committee, upon termination of employment. Contributions made by the Company were approximately $625,000 for 2012, $675,000 for 2011 and $600,000 for 2010.

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Salary Continuation Agreements

The National Bank of Sussex County (NBSC) entered into a salary continuation agreement during 1996 with its former Chief Executive Officer (CEO) and its President which entitle them to certain payments upon their retirement. As part of the merger of the Company and NBSC s parent (High Point Financial Corp.) in July 1999, Lakeland placed in trusts amounts equal to the present value of the amounts that would be owed to them in their retirement. These amounts were $722,000 for the CEO and $381,000 for the President. The Company has no further obligation to pay additional amounts pursuant to these agreements.

Former CEO Retirement Benefits

Metropolitan State Bank entered into an agreement in January 1997 with its former CEO, which provides for an annual retirement benefit of $35,000 for a fifteen year period. In February 1999, the Company entered into an additional agreement with this CEO. Such agreement provides for an additional retirement benefit of $35,000 per annum for a fifteen year period. During 2012, 2011 and 2010, $1,000, $5,000 and $7,000, respectively, was charged to operations related to these obligations.

Retirement Savings Plans (401(k) plans)

Beginning in January 2002, the Company began contributing to its 401(k) plan. All eligible employees can contribute a portion of their annual salary with the Company matching up to 50% of the employee s contributions. The Company s contributions in 2012, 2011 and 2010 totaled $628,000, $596,000 and $575,000, respectively.

Pension Plan

Newton Trust Company had a defined benefit pension plan (the Plan) that was frozen prior to the acquisition by the Company. All participants of the Plan ceased accruing benefits as of that date.

The investment policy and strategy of the Plan and its advisors includes target portfolio allocations of approximately 60% in equities, 30% in debt securities, 5% in commodities and 5% in cash. Based on historical performance, the Plan assumes that the long term equity securities have earned a rate of return of approximately 10% and fixed income securities have earned a return of between 1% and 5%.

The assets of the Plan consist of cash and cash equivalents and investments in mutual funds that are actively traded. All of the mutual funds are classified as Level 1 securities meaning that their market values are unadjusted quoted prices in active markets.

The following table shows the fair value and the portfolio allocations of the assets in the Plan by type of investment as of December 31, 2012 (dollars in thousands):

	Market Value	Percent of Assets
Cash and cash equivalents	$ 125	7%
Fixed Income Mutual funds	513	29%
U.S. Large-Cap funds	394	22%
U.S. Mid- and Small-Cap funds	124	7%
U.S. Balanced funds	252	14%
International funds	275	16%
Commodity funds	83	5%
	$ 1,766	100%

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The accumulated benefit obligation as of December 31 is as follows:

(in thousands)	2012	2011
Accumulated postretirement benefit obligation	**$ 2,200**	$ 1,970
Interest Cost	**87**	97
Actuarial loss	**176**	282
Estimated benefit payments	**(56)**	(149)
Total accumulated postretirement benefit obligation	**2,407**	2,200
Fair value of plan assets beginning of period	**1,484**	1,490
Return on plan assets	**178**	(17)
Benefits paid	**(56)**	(149)
Contribution	**160**	160
Fair value of plan assets at end of year	**1,766**	1,484
Funded status	**(641)**	(716)
Unrecognized net actuarial loss		
Liability	**$ (641)**	$ (716)
Accumulated benefit obligation	**$ 2,407**	$ 2,200

The components of net periodic pension cost are as follows:

(in thousands)	2012	2011	2010
Amortization of actuarial loss	**$ 72**	$ 47	$ 54
Interest cost on APBO	**87**	97	96
Expected return on plan assets	**(76)**	(89)	(79)
Net periodic postretirement cost	**$ 83**	$ 55	$ 71

The benefits expected to be paid in each of the next five years and the aggregate for the five fiscal years thereafter are as follows (in thousands):

2013	**$ 69**
2014	**74**
2015	**75**
2016	**86**
2017	**96**
2018 2022	**600**

The assumptions used to determine the pension obligation and the net periodic pension cost were as follows:

	2012	2011
Discounted rate	**3.75%**	4.00%
Expected return on plan assets	**4.00%**	5.00%
Rate of compensation	**0.00%**	0.00%

Deferred Compensation Arrangements

High Point Financial Corp. had established deferred compensation arrangements for certain directors and executives of High Point Financial Corp. and NBSC. The deferred compensation plans differ, but generally provide for annual payments for ten to fifteen years following retirement. The Company s liabilities under these arrangements are being accrued from the commencement of the plans over the participants remaining periods of

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service. The Company intends to fund its obligations under the deferred compensation arrangements with the increase in cash surrender value of life insurance policies that it has purchased on the respective participants. The deferred compensation plans do not hold any assets. For the years ended December 31, 2012, 2011 and 2010 there were no charges related to this plan. As of December 31, 2012 and 2011, the accrued liability for these plans was $271,000 and $249,000, respectively.

Supplemental Executive Retirement Plans

In 2003, the Company entered into a supplemental executive retirement plan (SERP) agreement with its former CEO that provides annual retirement benefits of $150,000 a year for a 15 year period when the former CEO reached the age of 65. Our former CEO retired and is receiving annual retirement benefits pursuant to the plan. In 2008, the Company entered into a SERP agreement with its current CEO that provides annual retirement benefits of $150,000 for a 15 year period when the CEO reaches the age of 65. In November 2008, the Company entered into a SERP with its Senior Executive Vice President and Chief Operating Officer that provides annual retirement benefits of $90,000 a year for a 10 year period upon his reaching the age of 65. 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 2012, 2011 and 2010, the Company recorded compensation expense of $434,000, $233,000 and $229,000, respectively, for these plans.

NOTE 12 DIRECTORS RETIREMENT PLAN

The Company provides a plan that any director who became a member of the Board of Directors prior to 2009 who completes five years of service may retire and continue to be paid for a period of ten years at a rate ranging from $5,000 through $17,500 per annum, depending upon years of credited service. This plan is unfunded. The following tables present the status of the plan and the components of net periodic plan cost for the years then ended. The measurement date for the accumulated benefit obligation is December 31 of the years presented.

	December 31,	
	2012	**2011**
	(in thousands)	
Accrued plan cost included in other liabilities	**$ 1,093**	$ 1,027
Amount not recognized as component of net postretirement benefit cost		
Recognized in accumulated other comprehensive income		
Net actuarial (gain) loss	**$ 82**	($ 12)
Unrecognized prior service cost		
Amounts not recognized as a component of net postretirement benefit cost (benefit)	**$ 82**	($ 12)

	Years ended December 31,		
	2012	**2011**	**2010**
	(in thousands)		
Net periodic plan cost included the following components:			
Service cost	**$ 30**	$ 24	$ 27
Interest cost	**41**	48	59
Amortization of prior service cost	**26**	23	30
	$ 97	$ 95	$ 116

A discount rate of 3.75% and 4.00% was assumed in the plan valuation for 2012 and 2011, 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 director s retirement plan holds no plan assets. The benefits expected to be paid in each of the next five years and in aggregate for the five years thereafter are as follows (in thousands):

2013	$ 75
2014	75
2015	85
2016	85
2017	75
2018 2022	167

The Company expects its contribution to the director s retirement plan to be $75,000 in 2013.

The amount in accumulated other comprehensive loss expected to be recognized as a component of net periodic benefit cost in 2013 is $21,000.

NOTE 13 STOCK-BASED COMPENSATION

Employee Stock Option Plans

On May 21, 2009, the Company s shareholders approved the 2009 Equity Compensation Program, which authorizes the granting of incentive stock options, supplemental stock options, restricted shares and restricted stock units to employees of the Company, including those employees serving as officers and directors of the Company. The plan authorizes the issuance of 2.2 million shares in connection with options and awards granted under the 2009 program.

The Company established the 2000 Equity Compensation Program which authorizes the granting of incentive stock options, supplemental stock options and restricted stock to employees of the Company which includes those employees serving as officers and directors of the Company. The plan authorized 2,488,748 shares of common stock of the Company. No further awards will be granted from the 2000 program.

During 2010, the Company granted options to purchase 27,562 shares to a new non-employee director of the Company at an exercise price of $8.23 per share under the 2009 program. The director s options are exercisable in five equal installments beginning on the date of grant and continuing on the next four anniversaries of the date of grant. As of December 31, 2012 and 2011, 179,785 and 211,695 options granted to directors were outstanding, respectively.

As of December 31, 2012 and 2011, outstanding options to purchase common stock granted to key employees were 295,912 and 386,782, respectively.

In 2010, the Company granted 38,174 shares of restricted stock at a fair value of $6.51 per share under the 2009 program. These shares vest over a five year period. Compensation expense on these shares is expected to be approximately $50,000 per year for the following five years. In 2011, the Company granted 100,112 shares of restricted stock at a fair value of $9.40 per share under the Company s 2009 equity compensation program. These shares vest over a five year period. Compensation expense on these shares is expected to average approximately $188,000 per year for the following five years. In 2012, the Company granted 91,269 shares of restricted stock at a grant date fair value of $9.50 per share under the Company s 2009 equity compensation program. These shares vest over a five year period. Compensation expense on these shares is expected to average approximately $173,000 per year for the next five years.

Excess tax benefits (losses) of stock based compensation were $4,000, $(3,000), and $21,000 for the years 2012, 2011 and 2010, respectively.

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For the year ended December 31, 2010, the Company estimated the fair value of each option grant on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2010
Risk-free interest rates	2.32%
Expected dividend yield	2.20%
Expected volatility	47.00%
Expected lives (years)	6.00
Weighted average fair value of options granted	$ 3.15

There were no stock options granted in 2012 or 2011.

A summary of the status of the Company s option plans as of December 31, 2012 and the changes during the year ending on that date is represented below.

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate Intrinsic Value
Outstanding, beginning of year	598,477	$ 12.57		$
Granted				
Exercised				
Expired	(88,018)	13.95		
Forfeited	(34,762)	12.64		
Outstanding, end of year	475,697	$ 12.31	2.52	$ 53,853
Options exercisable at year-end	464,671	$ 12.41	2.41	$ 32,737

A summary of the Company s non-vested options under the Company s option plans as of December 31, 2012 and changes for the year then ended is presented below.

Non-vested Options	Shares	Weighted-Average Grant-date Fair Value
Non-vested, January 1, 2012	22,050	$ 3.12
Granted		0.00
Vested	(11,024)	3.13
Non-vested, December 31, 2012	11,026	$ 3.11

As of December 31, 2012, there was $25,000 of unrecognized compensation expense related to unvested stock options under the 2009 and 2000 Equity Compensation Programs. Compensation expense recognized for stock options was $22,000, $43,000 and $60,000 for 2012, 2011 and 2010, respectively.

There were no options exercised in 2012. The aggregate intrinsic values of options exercised in 2011 and 2010 were $78,000 and $232,000, respectively. Exercise of stock options during 2011 and 2010 resulted in cash receipts of $72,000 and $662,000, respectively. The total fair value of options that vested in 2011 and 2010 were $50,000 and $50,000, respectively.

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Information regarding the Company s restricted stock for the year ended December 31, 2012 is as follows:

	Number of shares	Weighted average price
Outstanding, January 1, 2012	**172,772**	**$ 8.96**
Granted	**91,269**	**9.50**
Vested	**(40,260)**	**9.13**
Forfeited	**(1,225)**	**9.53**
Outstanding, December 31, 2012	**222,556**	**$ 9.15**

The total fair value of the restricted stock vested during the year ended December 31, 2012 was approximately $410,000. Compensation expense recognized for restricted stock was $724,000, $584,000 and $478,000 in 2012, 2011 and 2010, respectively. There was approximately $1.2 million in unrecognized compensation expense related to restricted stock grants as of December 31, 2012.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Lease Obligations

Rent expense under long-term operating leases amounted to approximately $2.1 million, $1.9 million and $1.9 million for the years ended December 31, 2012, 2011 and 2010, respectively, including rent expense to related parties of $227,000 in 2012, $325,000 in 2011, and $295,000, in 2010. At December 31, 2012, the minimum commitments, which include rental, real estate tax and other related amounts, under all noncancellable leases with remaining terms of more than one year and expiring through 2032 are as follows(in thousands):

Year	
2013	$ 2,209
2014	2,152
2015	1,999
2016	1,696
2017	1,310
Thereafter	10,790
	$ 20,156

Litigation

On February 15, 2013, the Company was served with a Civil Action Summons and Class Action Complaint that was filed in the Superior Court of New Jersey, Chancery Division, Somerset County. The complaint states that the plaintiff is bringing the class action on behalf of the public stockholders of Somerset Hills Bancorp against the Board of Directors of Somerset Hills for their alleged breach of fiduciary duties arising out of the Agreement and Plan of Merger, dated as of January 28, 2013, by and between the Company and Somerset Hills Bancorp. The complaint alleges that the Company has aided and abetted the individual defendants in their alleged breaches of fiduciary duties. The Company intends to vigorously defend against these claims.

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

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NOTE 15 FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

Lakeland is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement Lakeland has in particular classes of financial instruments.

Lakeland s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. Lakeland uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Lakeland generally requires collateral or other security to support financial instruments with credit risk. The approximate contract amounts are as follows:

	December 31,	
	2012	**2011**
	(in thousands)	
Financial instruments whose contract amounts represent credit risk		
Commitments to extend credit	**$ 430,641**	$ 436,761
Standby letters of credit and financial guarantees written	**7,922**	9,043

At December 31, 2012 and 2011 there were $54,000 and $91,000, respectively, in commitments to lend additional funds to borrowers whose terms have been modified in troubled debt restructurings.

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. Commitments 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.

Standby letters of credit 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 at December 31, 2012 and 2011 varies based on management s credit evaluation.

Lakeland issues financial and performance letters of credit. Financial letters of credit require Lakeland to make payment if the customer fails to make payment, as defined in the agreements. Performance letters of credit require Lakeland to make payments if the customer fails to perform certain non-financial contractual obligations. Lakeland defines the initial fair value of these letters of credit as the fees received from the customer. Lakeland records these fees as a liability when issuing the letters of credit and amortizes the fee over the life of the letter of credit.

The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2012 is $7.9 million and they expire through 2024. 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.

As of December 31, 2012, Lakeland had $430.6 million in loan and lease commitments, with $351.0 million maturing within one year, $49.4 million maturing after one year but within three years, $843,000 maturing after three years but within five years, and $29.4 million maturing after five years. As of December 31, 2012, Lakeland had $7.9 million in standby letters of credit, with $5.1 million maturing within one year, $2.7 million maturing after one year but within three years, and $80,000 maturing after five years.

Lakeland grants loans primarily to customers in its immediately adjacent suburban counties which include Bergen, Morris, Passaic, Sussex, Warren and Essex counties in Northern New Jersey and surrounding areas. Certain of Lakeland s consumer loans and lease customers are more diversified nationally. Although Lakeland has a diversified loan portfolio, a large portion of its loans are secured by commercial or residential real property. Although Lakeland has a diversified loan portfolio, a substantial portion of its debtors ability to honor their contracts is dependent upon the economy. Commercial and standby letters of credit were granted primarily to commercial borrowers.

NOTE 16 FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurement

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

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

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

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

The Company s assets that are measured at fair value on a recurring basis are its available for sale investment securities. The Company obtains fair values on its securities using information from a third party servicer. If quoted prices for securities are available in an active market, those securities are classified as Level 1 securities. The Company has a U.S. Treasury Note and certain equity securities that are classified as Level 1 securities. Level 2 securities were primarily comprised of U.S. Agency bonds, residential mortgage-backed securities, obligations of state and political subdivisions and corporate securities. Fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, bids and offers. On a quarterly basis, the Company reviews the pricing information received from the Company s third party pricing service. This review includes a comparison to non-binding third-party quotes. As a result of our review, we did not have any adjustments to prices from our third party servicer.

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. The Company had no liabilities accounted for at fair value as of December 31, 2011. During the year ended December 31, 2012, the

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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:

	(Level 1)	(Level 2)	(Level 3)	Total Fair Value
		(in thousands)		
December 31, 2012				
Assets:				
Investment securities, available for sale				
U.S. treasury and government agencies	**$ 3,493**	**$ 83,078**	**$**	**$ 86,571**
Mortgage backed securities		**239,559**		**239,559**
Obligations of states and political subdivisions		**38,620**		**38,620**
Corporate debt securities		**13,444**		**13,444**
Equity securities	**2,010**	**13,506**		**15,516**
Total securities available for sale	**5,503**	**388,207**		**393,710**
Other Assets(a)		**195**		**195**
Total Assets	**$ 5,503**	**$ 388,402**	**$**	**$ 393,905**
Other Liabilities(a)	**$**	**$ 195**	**$**	**$ 195**
Total Liabilities	**$**	**$ 195**	**$**	**$ 195**

(a) Non-hedging interest rate derivatives

	(Level 1)	(Level 2)	(Level 3)	Total Fair Value
December 31, 2011				
Assets:				
Investment securities, available for sale				
U.S. government agencies	$	$ 43,603	$	$ 43,603
Mortgage backed securities		349,524		$ 349,524
Obligations of states and political subdivisions		35,968		$ 35,968
Corporate debt securities		19,717		$ 19,717
Equity securities	1,732	13,067		$ 14,799
Total securities available for sale	$ 1,732	$ 461,879	$	$ 463,611

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

	(Level 1)	(Level 2)	(Level 3)	Total Fair Value
			(in thousands)	
December 31, 2012				
Assets:				
Impaired Loans and Leases	**$**	**$**	**$ 31,531**	**$ 31,531**
Other real estate owned and other repossessed assets			**529**	**529**

	(Level 1)	(Level 2)	(Level 3)	Total Fair Value
			(in thousands)	
December 31, 2011				
Assets:				
Impaired Loans and Leases	$	$	$ 43,145	$ 43,145
Other real estate owned and other repossessed assets			1,182	1,182

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

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

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

Fair Value of Certain Financial Instruments

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

The estimation methodologies used, the estimated fair values, and recorded book balances at December 31, 2012 and December 31, 2011 are outlined below.

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

The fair value of Investment Securities Held to Maturity was measured using information from the same third-party servicer used for Investment Securities Available for Sale using the same methodologies discussed above. Investment Securities Held to Maturity includes $12.4 million in short-term municipal bond anticipation notes that are non-rated and do not have an active secondary market or information readily available on standard financial systems. As a result, the securities are classified as Level 3 securities. These are investments in municipalities in the Company s market area, and management performs a credit analysis on the municipality before investing in these securities.

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Federal Home Loan Bank of New York (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 at December 31, 2012 and December 31, 2011 has been valued using a present value discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest approximates fair value.

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 at December 31, 2012 is based on bid/ask prices from brokers for similar types of instruments based on updated accounting guidance on fair value measurement. As of December 31, 2011, the fair value of the subordinated debentures was based on discounted cash flows using discount rates currently offered for similar borrowing arrangements.

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.

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The following table presents the carrying values, fair values and placement in the fair value hierarchy of the Company s financial instruments as of December 31, 2012 and December 31, 2011:

December 31, 2012	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Instruments Assets					
Investment securities held to maturity	**$ 96,925**	**$ 99,784**	**$**	**$ 87,336**	**$ 12,448**
Federal Home Loan Bank Stock	**5,382**	**5,382**		**5,382**	
Loans and leases	**2,146,843**	**2,154,507**			**2,154,507**
Financial Instruments Liabilities					
Certificates of Deposit	**303,792**	**305,398**		**305,398**	
Other borrowings	**85,000**	**91,325**		**91,325**	
Subordinated debentures	**51,548**	**33,403**			**33,403**
Commitments:					
Standby letters of credit		**4**			**4**
December 31, 2011					
Financial Assets:					
Investment securities held to maturity	$ 71,700	$ 74,274	$	$ 61,308	$ 12,966
Federal Home Loan Bank Stock	8,333	8,333		8,333	
Loans and leases	2,041,575	2,055,448			2,055,448
Financial Liabilities:					
Certificates of Deposit	359,552	362,408		362,408	
Other borrowings	155,000	165,821		165,821	
Subordinated debentures	77,322	77,973			77,973
Commitments:					
Standby letters of credit		71			71

NOTE 17 DERIVATIVES

The Company is a party to interest rate derivatives that are not designated as hedging instruments. These derivatives relate to interest rate swaps that the Company enters into with customers to allow customers to convert variable rate loans to a fixed rate. The Company pays interest to the customer at a floating rate on the notional amount and receives interest from the customer at a fixed rate for the same notional amount. At the same time the interest rate swap is entered into with the customer, an offsetting interest rate swap is entered into with another financial institution. The Company pays the other financial institution interest at the same fixed rate on the same notional amount as the swap entered into with the customer, and receives interest from the financial institution for the same floating rate on the same notional amount. 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 of given default for all counterparties. As of December 31, 2012, the Company had $497,000 in securities pledged for collateral on its interest rate swap with the financial institution.

At December 31, 2012, summary information regarding these derivatives is presented below (in thousands):

	Notional Amount	Average Maturity	Weighted Average Rate Fixed	Weighted Average Variable Rate	Fair Value
3rd party interest rate swap	$ 6,400	10.1	4.625%	1 Mo Libor + 2.61	$ 195
Customer interest rate swap	(6,400)	10.1	4.625%	1 Mo Libor + 2.61	(195)

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NOTE 18 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 $219.0 million was available for payment of dividends from Lakeland to the Company as of December 31, 2012.

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, 2012, that the Company and Lakeland met all capital adequacy requirements to which they are subject.

As of December 31, 2012, the most recent notification from the Federal Reserve Bank of New York and the FDIC categorized the Company and Lakeland as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and Lakeland must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institutions category.

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As of December 31, 2012 and 2011, the Company and Lakeland have the following capital ratios:

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of December 31, 2012						
Total capital (to risk-weighted assets)						
Company	**$265,894**	**12.77%**	**³$166,561**	**³ 8.00%**	**N/A**	**N/A**
Lakeland	**247,680**	**11.92**	**166,273**	**8.00**	**³$207,842**	**³ 10.00%**
Tier 1 capital (to risk-weighted assets)						
Company	**$239,819**	**11.52%**	**³$83,281**	**³ 4.00%**	**N/A**	**N/A**
Lakeland	**221,650**	**10.66**	**83,137**	**4.00**	**³$124,705**	**³ 6.00%**
Tier 1 capital (to average assets)						
Company	**$239,819**	**8.62%**	**³$111,256**	**³ 4.00%**	**N/A**	**N/A**
Lakeland	**221,650**	**7.98**	**111,082**	**4.00**	**³$138,852**	**³ 5.00%**

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of December 31, 2011						
Total capital (to risk-weighted assets)						
Company	$270,058	13.39%	³$161,308	³8.00%	N/A	N/A
Lakeland	253,070	12.59	160,862	8.00	³$201,078	³10.00%
Tier 1 capital (to risk-weighted assets)						
Company	$226,401	11.23%	³ $80,653	³4.00%	N/A	N/A
Lakeland	227,882	11.33	80,431	4.00	³$120,647	³6.00%
Tier 1 capital (to average assets)						
Company	$226,401	8.33%	³$108,741	³4.00%	N/A	N/A
Lakeland	227,882	8.40	108,529	4.00	³$135,661	³5.00%

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NOTE 19 SUBSEQUENT EVENT

On January 28, 2013, the Company entered into an agreement and Plan of Merger (the Merger Agreement) with Somerset Hills Bancorp, pursuant to which Somerset Hills Bancorp will merge with and into the Company. The Merger Agreement provides that the shareholders of Somerset Hills Bancorp will receive, at their election, for each outstanding share of Somerset Hills Bancorp common stock that they own at the effective time of the merger, either 1.1962 shares of Lakeland Bancorp common stock or $12.00 in cash, subject to proration as described in the Merger Agreement, so that 90% of the aggregate merger consideration will be shares of Lakeland Bancorp common stock and 10% will be cash. Lakeland Bancorp expects to issue an aggregate of 5,780,883 shares of its common stock in the merger, and will also assume outstanding Somerset Hills Bancorp stock options (which will be converted into options to purchase Lakeland Bancorp common stock). The transaction is valued at approximately $64.4 million in the aggregate (excluding the assumption of stock options), or $12.00 per share. As of December 31, 2012, Somerset Hills Bancorp had consolidated total assets, total loans, total deposits and total stockholders equity of $368.9 million, $241.9 million, $320.2 million and $41.8 million, respectively. Somerset Hills Bancorp had net income of $3.4 million for the year ended December 31, 2012.

The transaction has been approved by the board of directors of each of Lakeland Bancorp and Somerset Hills Bancorp. Subject to approval of the shareholders of Somerset Hills Bancorp and Lakeland Bancorp, regulatory approvals and other customary closing conditions, the Company anticipates completing the merger in the second or third quarter of 2013.

NOTE 20 QUARTERLY FINANCIAL DATA (UNAUDITED)

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

	Quarter ended			
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
	(in thousands, except per share amounts)			
Total interest income	$ 28,294	$ 27,938	$ 27,495	$ 27,232
Total interest expense	4,348	4,190	3,840	3,068
Net interest income	23,946	23,748	23,655	24,164
Provision for loan and lease losses	4,556	3,877	3,350	3,124
Noninterest income (excluding investment securities gains)	4,025	4,530	4,640	4,661
Gains on investment securities, net	32	241		776
Noninterest expense	16,275	16,470	16,968	17,960
Income before taxes	7,172	8,172	7,977	8,517
Income taxes	2,201	2,719	2,488	2,688
Net income	$ 4,971	$ 5,453	$ 5,489	$ 5,829
Dividends on Preferred Stock and Accretion	$ 620			
Net Income Available to Common Stockholders	$ 4,351	$ 5,453	$ 5,489	$ 5,829
Earnings per share of common stock(1)				
Basic	$ 0.16	$ 0.20	$ 0.20	$ 0.20
Diluted	$ 0.16	$ 0.20	$ 0.20	$ 0.20

(1) Adjusted for 5% stock dividend payable on April 16, 2012 to shareholders of record March 30, 2012.

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During the fourth quarter of 2012, the Company incurred a $782,000 prepayment fee on a repayment of long-term debt which is included in noninterest expense, above.

	Quarter ended			
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
	(in thousands, except per share amounts)			
Total interest income	$ 29,889	$ 29,600	$ 29,288	$ 28,747
Total interest expense	5,305	5,179	4,937	4,690
Net interest income	24,584	24,421	24,351	24,057
Provision for loan and lease losses	4,927	5,406	4,058	4,425
Noninterest income	4,230	4,266	4,310	4,082
Gains on investment securities, net		444	785	
Noninterest expense	17,026	16,732	18,040	16,353
Income before taxes	6,861	6,993	7,348	7,361
Income taxes	2,090	2,135	2,242	2,245
Net income	$ 4,771	$ 4,858	$ 5,106	$ 5,116
Dividends on Preferred Stock and Accretion	$ 1,286	$ 294	$ 293	$ 294
Net Income Available to Common Stockholders	$ 3,485	$ 4,564	$ 4,813	$ 4,822
Earnings per share of common stock (1)				
Basic	$ 0.13	$ 0.17	$ 0.18	$ 0.18
Diluted	$ 0.13	$ 0.17	$ 0.18	$ 0.18

(1) Adjusted for 5% stock dividend payable on April 16, 2012 to shareholders of record March 30, 2012.

NOTE 21 CONDENSED FINANCIAL INFORMATION PARENT COMPANY ONLY:

CONDENSED BALANCE SHEETS

	December 31,	
	2012	2011
	(in thousands)	
ASSETS		
Cash and due from banks	**$ 10,349**	$ 10,625
Investment securities available for sale	**2,375**	2,037
Investment in subsidiaries	**313,575**	319,687
Land held for sale	**70**	877
Other assets	**6,391**	4,838
TOTAL ASSETS	**$ 332,760**	$ 338,064
LIABILITIES AND STOCKHOLDERS EQUITY		
Other liabilities	**$ 345**	$ 959
Subordinated debentures	**51,548**	77,322
Preferred stock		18,480

Common stockholders equity	**280,867**	241,303
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 332,760**	$ 338,064

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CONDENSED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2012	**2011**	**2010**
		(in thousands)	
INCOME			
Dividends from subsidiaries	**$ 31,300**	$ 31,845	$ 30,335
Other-than-temporary impairment losses on securities			(128)
Other income	**403**	227	176
TOTAL INCOME	**31,703**	32,072	30,383
EXPENSE			
Interest on subordinated debentures	**3,664**	4,443	4,604
Noninterest expenses	**1,718**	1,634	1,395
TOTAL EXPENSE	**5,382**	6,077	5,999
Income before benefit for income taxes	**26,321**	25,995	24,384
Income taxes benefit	**(1,654)**	(1,960)	(2,038)
Income before equity in undistributed income of subsidiaries	**27,975**	27,955	26,422
Equity in undistributed loss of subsidiaries	**(6,233)**	(8,104)	(7,211)
NET INCOME	**$ 21,742**	$ 19,851	$ 19,211
Interest on preferred stock and discount accretion	**620**	2,167	3,987
Net Income Available to Common Shareholders	**$ 21,122**	$ 17,684	$ 15,224

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CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2012	2011 (in thousands)	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 21,742**	$ 19,851	$ 19,211
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Share based compensation	**746**	627	538
Loss on securities			128
Gain on land held for sale	**(235)**		
(Increase) decrease in other assets	**(1,553)**	(1,660)	3,196
Increase (decrease) in other liabilities	**(610)**	3	(45)
Equity in undistributed loss of subsidiaries	**6,233**	8,104	7,211
NET CASH PROVIDED BY OPERATING ACTIVITIES	**26,323**	26,925	30,239
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of securities	**(53)**	(38)	(35)
Sale of land held for sale	**1,042**		
Contribution to subsidiary			
NET CASH PROVIDED BY (USED) IN INVESTING ACTIVITIES	**989**	(38)	(35)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid on common and preferred stock	**(5,992)**	(6,327)	(6,847)
Issuance of stock to the dividend reinvestment and stock purchase plan	**160**	185	57
Proceeds on issuance of preferred stock, net	**25,040**		
Redemption of subordinated debentures, net	**(25,000)**		
Redemption of preferred stock	**(19,000)**	(20,000)	(20,000)
Warrant repurchase	**(2,800)**		
Excess tax benefits	**4**	(3)	(5)
Exercise of stock options		72	653
NET CASH USED IN FINANCING ACTIVITIES	**(27,588)**	(26,073)	(26,142)
Net increase (decrease) in cash and cash equivalents	**(276)**	814	4,062
Cash and cash equivalents, beginning of year	**10,625**	9,811	5,749
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 10,349**	$ 10,625	$ 9,811

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Lakeland Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Lakeland Bancorp, Inc. (a New Jersey corporation) and subsidiaries (collectively, the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lakeland Bancorp, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2013 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania

March 15, 2013

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, 2012, 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, 2012. 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.

As of December 31, 2012, based on management s assessment, the Company s internal control over financial reporting was effective.

Our independent registered public accounting firm, Grant Thornton LLP, audited our internal control over financial reporting as of December 31, 2012. Their report, dated March 15, 2013, 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, 2012 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

Board of Directors and Shareholders

Lakeland Bancorp, Inc.

We have audited the internal control over financial reporting of Lakeland Bancorp, Inc. (a New Jersey Corporation) and subsidiaries (the Company) as of December 31, 2012, based on criteria established in *Internal Control Integrated Fram*ework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2012, and our report dated March 15, 2013 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania

March 15, 2013

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ITEM 9B Other Information.

None.

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PART III

ITEM 10 Directors, Executive Officers and Corporate Governance.

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company s definitive proxy statement for its 2013 Annual Meeting of Shareholders.

ITEM 11 Executive Compensation.

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company s definitive proxy statement for its 2013 Annual Meeting of Shareholders.

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

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company s definitive proxy statement for its 2013 Annual Meeting of Shareholders.

Equity Compensation Plan Information

The following table gives information about the Company s common stock that may be issued upon the exercise of options under the Company s Amended and Restated 2000 Equity Compensation Program and the Company s 2009 Equity Compensation Program as of December 31, 2012. These plans were the Company s only equity compensation plans in existence as of December 31, 2012. The 2009 Equity Compensation Program is the successor to the 2000 Equity Compensation Program, and no additional awards will be granted under the 2000 Equity Compensation Program. No warrants or rights may be granted, or are outstanding, under the 2000 or the 2009 Equity Compensation Programs.

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	698,253	$ 12.31	1,947,883
Equity Compensation Plans Not Approved by Shareholders			
TOTAL	698,253	$ 12.31	1,947,883

The number in column (a) includes 222,556 shares subject to restricted stock awards, including unvested shares. Shares subject to restricted stock awards have been excluded for purposes of calculating the weighted-average exercise price in column (b).

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

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company s definitive proxy statement for its 2013 Annual Meeting of Shareholders.

ITEM 14 Principal Accounting Fees and Services.

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company s definitive proxy statement for its 2013 Annual Meeting of Shareholders.

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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, 2012 and 2011.

(ii) Consolidated Statements of Operations for each of the three years in the period ended December 31, 2012.

(iii) Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2012.

(iv) Consolidated Statements of Changes in Stockholders Equity for each of the three years in the period ended December 31, 2012.

(v) Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2012.

(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 January 28, 2013, by and between the Registrant and Somerset Hills Bancorp, is incorporated by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K filed with the SEC on January 29, 2013.

3.1 Registrant s Restated Certificate of Incorporation, dated May 19, 2005, including Certificate of Amendment dated February 4, 2009 to Registrant s Restated Certificate of Incorporation, is incorporated by reference to Exhibit 3.1 to Registrant s Current Report on Form 8-K filed with the SEC on February 9, 2009.

3.2 Certificate of Amendment, dated January 29, 2009, to Registrant s Restated Certificate of Incorporation is incorporated by reference to Exhibit 3.1 to Registrant s Current Report on Form 8-K filed with the SEC on February 3, 2009.

3.3 Registrant s Amended and Restated Bylaws.

4.1	Warrant to Purchase up to 1,046,901 shares of Common Stock (as last adjusted pursuant to the terms thereof prior to the Registrant s repurchase of the Warrant from the Treasury on February 29, 2012), dated February 6, 2009, is incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed with the SEC on February 9, 2009.
10.1	Lakeland Bancorp, Inc. Amended and Restated 2000 Equity Compensation Program is incorporated by reference to Appendix A to the Registrant s definitive proxy materials for its 2005 Annual Meeting of Shareholders.
10.2	Lakeland Bancorp, Inc. 2009 Equity Compensation Program is incorporated by reference to Annex B to the Registrant s definitive proxy materials for its 2009 Annual Meeting of Shareholders.
10.3	Employment Agreement Change in Control, Severance and Employment Agreement for Roger Bosma, dated as of January 1, 2000, among Lakeland Bancorp, Inc., Lakeland Bank and Roger Bosma, is incorporated by reference to Exhibit 10.6 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 1999.

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10.4	Employment Agreement, dated as of April 2, 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.
10.5	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.
10.6	Change of Control Agreement dated March 1, 2001, among Lakeland Bancorp, Inc., Lakeland Bank and Joseph F. Hurley is incorporated by reference to Exhibit 10.8 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
10.7	Change of Control Agreement dated March 1, 2001, among Lakeland Bancorp, Inc., Lakeland Bank and Robert A. Vandenbergh is incorporated by reference to Exhibit 10.9 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
10.8	Change of Control Agreement dated March 6, 2001, among Lakeland Bancorp, Inc., Lakeland Bank and Louis E. Luddecke is incorporated by reference to Exhibit 10.10 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
10.9	Change of Control Agreement dated March 7, 2001, among Lakeland Bancorp, Inc. Lakeland Bank and Jeffrey J. Buonforte is incorporated by reference to Exhibit 10.11 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
10.10	Amendments to Change of Control Agreements, dated March 10, 2003, among Lakeland Bancorp, Inc., Lakeland Bank and each of Joseph F. Hurley, Robert A. Vandenbergh, Louis E. Luddecke and Jeffrey J. Buonforte are incorporated by reference to Exhibit 10.13 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2002.
10.11	Change of Control Agreement dated April 7, 2004, among Lakeland Bancorp, Inc. Lakeland Bank and James R. Noonan is incorporated by reference to Exhibit 10.11 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2004.
10.12	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.
10.13	Change in Control, Severance and Employment Agreement, dated as of November 24, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and David S. Yanagisawa, is incorporated by reference to Exhibit 10.9 of the Registrant s Current Report on Form 8-K filed with the SEC on December 30, 2008.
10.14	Supplemental Executive Retirement Plan Agreement for Roger Bosma, dated August 21, 2003, and First Amendment to the Supplemental Executive Retirement Plan Agreement, adopted December 13, 2006, are incorporated by reference to Exhibit 10.11 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2006.

10.15 Letter Agreement, dated February 6, 2009, including the Securities Purchase Agreement Standard Terms attached thereto between the Registrant and the United States Department of the Treasury, is incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the SEC on February 9, 2009.

10.16 Form of Waiver, executed by each of Thomas J. Shara, Joseph F. Hurley, Robert A. Vandenbergh, Jeffrey J. Buonforte and Louis E. Luddecke, is incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed with the SEC on February 9, 2009.

10.17 Form of Executive Waiver Agreement, executed by each of Thomas J. Shara, Joseph F. Hurley, Robert A. Vandenbergh, Jeffrey J. Buonforte and Louis E. Luddecke, is incorporated by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K filed with the SEC on February 9, 2009.

10.18 Second Amendatory Agreement to Change in Control Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Jeffrey J. Buonforte, is incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the SEC on December 30, 2008.

10.19 Second Amendatory Agreement to Change in Control Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Joseph F. Hurley, is incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed with the SEC on December 30, 2008.

10.20 Second Amendatory Agreement to Change in Control Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Louis E. Luddecke, is incorporated by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K filed with the SEC on December 30, 2008.

10.21 First Amendatory Agreement to Change in Control Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and James R. Noonan, is incorporated by reference to Exhibit 10.4 to the Registrant s Current Report on Form 8-K filed with the SEC on December 30, 2008.

10.22 Second Amendatory Agreement to Change in Control Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Robert A. Vandenbergh, is incorporated by reference to Exhibit 10.5 to the Registrant s Current Report on Form 8-K filed with the SEC on December 30, 2008.

10.23 Supplemental Executive Retirement Plan Agreement, effective as of December 23, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Robert A. Vandenbergh, is incorporated by reference to Exhibit 10.7 to the Registrant s Current Report on Form 8-K filed with the SEC on December 30, 2008.

10.24 Amendment No. 3 to Salary Continuation Agreement, dated as of December 31, 2008, among Lakeland Bancorp, Inc., Lakeland Bank and Robert A. Vandenbergh, is incorporated by reference to Exhibit 10.8 to the Registrant s Current Report on Form 8-K filed with the SEC on December 30, 2008.

10.25 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.

10.26 Form of Securities Purchase Agreement, dated August 29, 2012, between the Registrant and the Investors participating in the Registrant s registered direct offering, is incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the SEC on August 29, 2012.

10.27 Employment Agreement, dated as of January 28, 2013, by and among the Registrant, Lakeland Bank and Stewart E. McClure, Jr., is incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the SEC on January 29, 2013.

10.28 Amendatory Agreement, dated as of January 28, 2013 to the Amended and Restated Supplemental Executive Retirement Plan, among Somerset Hills Bancorp, Somerset Hills Bank and Stewart E. McClure, Jr., is incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed with the SEC on January 29, 2013.

12.1 Statement of Ratios of Earnings (Loss) to Fixed Charges.

21.1	Subsidiaries of Registrant.
23.1	Consent of Grant Thornton LLP.
24.1	Power of Attorney.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Certification of Chief Executive Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.
99.2	Certification of Chief Financial Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

LAKELAND BANCORP, INC.

Dated: March 15 , 2013 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/ ROGER BOSMA*	Director	March 15 , 2013
Roger Bosma		
/s/ BRUCE D. BOHUNY*	Director	March 15, 2013
Bruce D. Bohuny		
/s/ MARY ANN DEACON*	Director	March 15, 2013
Mary Ann Deacon		
/s/ BRIAN FLYNN*	Director	March 15, 2013
Brian Flynn		
/s/ MARK J. FREDERICKS*	Director	March 15, 2013
Mark J. Fredericks		
/s/ JANETH C. HENDERSHOT*	Director	March 15, 2013
Janeth C. Hendershot		
/s/ ROBERT E. MCCRACKEN*	Director	March 15, 2013
Robert E. McCracken		
/s/ ROBERT B. NICHOLSON, III*	Director	March 15, 2013
Robert B. Nicholson, III		
/s/ JOSEPH P. O DOWD*	Director	March 15, 2013
Joseph P. O Dowd		

/s/ THOMAS J. SHARA **Thomas J. Shara**	Director, President and Chief Executive Officer (Principal Executive Officer)	March 15, 2013
/s/ STEPHEN R. TILTON, SR.* **Stephen R. Tilton, Sr.**	Director	March 15, 2013
/s/ JOSEPH F. HURLEY **Joseph F. Hurley**	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 15, 2013

*By:	/s/ THOMAS J. SHARA **Thomas J . Shara** **Attorney-in-Fact**	March 15, 2013