

LAKELAND BANCORP INC
Form 10-Q
August 07, 2015
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission file number 000-17820

LAKELAND BANCORP, INC.

(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of

incorporation or organization)

250 Oak Ridge Road, Oak Ridge, New Jersey
(Address of principal executive offices)

22-2953275
(I.R.S. Employer

Identification No.)

07438
(Zip Code)

(973) 697-2000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90

days. Yes No

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

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act: (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.):

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of July 31, 2015, there were 37,903,909 outstanding shares of Common Stock, no par value.

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LAKELAND BANCORP, INC.

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The Securities and Exchange Commission maintains a web site which contains reports, proxy and information statements and other information relating to registrants that file electronically

at the address:

<http://www.sec.gov>.

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

	June 30, 2015	December 31,
	(unaudited)	2014
	(dollars in thousands except share and per share amounts)	
ASSETS:		
Cash	\$118,207	\$102,549
Interest-bearing deposits due from banks	19,359	6,767
Total cash and cash equivalents	137,566	109,316
Investment securities available for sale, at fair value	461,686	457,449
Investment securities held to maturity; fair value of \$123,585 at June 30, 2015 and \$109,030 at December 31, 2014	123,133	107,976
Federal Home Loan Bank and other membership bank stock, at cost	12,779	9,846
Loans held for sale	3,348	592
Loans, net of deferred costs (fees)	2,754,517	2,653,826
Less: allowance for loan and lease losses	30,174	30,684
Net loans	2,724,343	2,623,142
Premises and equipment, net	35,524	35,675
Accrued interest receivable	8,911	8,896
Goodwill	109,974	109,974
Other identifiable intangible assets	1,742	1,960
Bank owned life insurance	61,869	57,476
Other assets	18,252	16,023
TOTAL ASSETS	\$3,699,127	\$3,538,325

LIABILITIES

Deposits:		
Noninterest bearing	\$714,227	\$646,052
Savings and interest-bearing transaction accounts	1,822,295	1,864,805
Time deposits under \$100 thousand	165,105	165,625
Time deposits \$100 thousand and over	141,326	114,337
Total deposits	2,842,953	2,790,819
Federal funds purchased and securities sold under agreements to repurchase	146,249	108,935
Other borrowings	262,728	202,498
Subordinated debentures	41,238	41,238
Other liabilities	15,099	15,397
TOTAL LIABILITIES	3,308,267	3,158,887

STOCKHOLDERS EQUITY

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Common stock, no par value; authorized shares, 70,000,000; issued 37,903,282 shares at June 30, 2015 and 37,910,840 shares at December 31, 2014	385,565	384,731
Retained earnings (Accumulated deficit)	3,281	(6,816)
Accumulated other comprehensive income	2,014	1,523
TOTAL STOCKHOLDERS EQUITY	390,860	379,438
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$3,699,127	\$3,538,325

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

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED**

For the Three Months Ended June 30 For the Six Months Ended June 30,
2015 2014 2015 2014
(In thousands, except per share data)

	2015	2014	2015	2014
INTEREST INCOME				
Loans, leases and fees	\$28,211	\$27,558	\$56,107	\$54,456
Federal funds sold and interest-bearing deposits with banks	11	9	23	22
Taxable investment securities and other	2,688	2,515	5,362	5,061
Tax-exempt investment securities	398	467	808	940
TOTAL INTEREST INCOME	31,308	30,549	62,300	60,479
INTEREST EXPENSE				
Deposits	1,346	1,243	2,629	2,506
Federal funds purchased and securities sold under agreements to repurchase	37	35	59	50
Other borrowings	1,256	852	2,425	1,659
TOTAL INTEREST EXPENSE	2,639	2,130	5,113	4,215
NET INTEREST INCOME	28,669	28,419	57,187	56,264
Provision for loan and lease losses	740	1,593	1,610	3,082
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	27,929	26,826	55,577	53,182
NONINTEREST INCOME				
Service charges on deposit accounts	2,450	2,663	4,790	5,222
Commissions and fees	1,196	1,082	2,503	2,095
Gains on sales and calls of investment securities	17	---	17	2
Gains on sales of loans	464	152	729	235
Income on bank owned life insurance	388	365	1,087	725
Other income	443	109	570	165
TOTAL NONINTEREST INCOME	4,958	4,371	9,696	8,444
NONINTEREST EXPENSE				
Salaries and employee benefits	12,144	11,200	23,894	22,013
Net occupancy expense	2,273	2,041	4,821	4,658
Furniture and equipment	1,629	1,660	3,285	3,353
Stationery, supplies and postage	377	334	742	688
Marketing expense	416	476	656	862
FDIC insurance expense	531	511	1,049	1,012
Legal expense	325	219	441	492
Expenses on other real estate owned and other repossessed assets	27	100	19	115
Core deposit intangible amortization	107	119	218	242
Other expenses	3,366	2,870	6,112	5,837

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TOTAL NONINTEREST EXPENSE	21,195	19,530	41,237	39,272
Income before provision for income taxes	11,692	11,667	24,036	22,354
Income tax expense	3,830	3,886	7,844	7,410
NET INCOME	\$7,862	\$7,781	\$16,192	\$14,944

PER SHARE OF COMMON STOCK

Basic earnings	\$0.21	\$0.20	\$0.42	\$0.39
Diluted earnings	\$0.21	\$0.20	\$0.42	\$0.39
Dividends	\$0.085	\$0.071	\$0.160	\$0.142

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

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME-UNAUDITED**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
NET INCOME	\$7,862	\$7,781	\$16,192	\$14,944
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Unrealized securities (losses) gains during period	(2,177)	2,797	498	5,785
Reclassification for gains included in net income	(17)	---	(17)	(2)
Change in pension liability, net	5	5	10	10
Other Comprehensive Income (Loss)	(2,189)	2,802	491	5,793
TOTAL COMPREHENSIVE INCOME	\$5,673	\$10,583	\$16,683	\$20,737

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

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY - UNAUDITED

Six Months Ended June 30, 2015

	Common Stock	Retained Earnings (Accumulated deficit) (dollars in thousands)	Accumulated Other Comprehensive Income	Total
BALANCE January 1, 2015	\$384,731	(\$6,816)	\$1,523	\$379,438
Net Income	---	16,192	---	16,192
Other comprehensive income, net of tax	---	---	491	491
Stock based compensation	912	---	---	912
Retirement of restricted stock	(250)	---	---	(250)
Exercise of stock options, net of excess tax benefits	172	---	---	172
Cash dividends, common stock	---	(6,095)	---	(6,095)
BALANCE June 30, 2015 (UNAUDITED)	\$385,565	\$3,281	\$2,014	\$390,860

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

	For the Six Months Ended June 30,	
	2015	2014
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$16,192	\$14,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums, discounts and deferred loan fees and costs	2,009	1,808
Depreciation and amortization	1,914	1,807
Amortization of intangible assets	218	242
Provision for loan and lease losses	1,610	3,082
Loans originated for sale	(34,649)	(8,450)
Proceeds from sales of loans	32,622	9,492
Gains on sales and calls of securities	(17)	(2)
Gains on sales of loans held for sale	(729)	(235)
Gains on other real estate and other repossessed assets	(144)	(65)
Losses on sales of premises and equipment	2	19
Stock-based compensation	912	638
Increase in other assets	(3,535)	(813)
Decrease in other liabilities	(281)	(1,863)
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,124	20,604
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from repayments on and maturity of securities:		
Available for sale	37,946	24,738
Held to maturity	8,804	11,217
Proceeds from sales of securities		
Available for sale	11,472	15,646
Held to maturity	---	1,374
Purchase of securities:		
Available for sale	(54,241)	(17,133)
Held to maturity	(24,245)	(16,497)
Purchase of bank owned life insurance	(4,078)	---
Proceeds from bank owned life insurance policy	772	---
Net increase in Federal Home Loan Bank Stock	(2,933)	(1,873)
Net increase in loans and leases	(103,750)	(143,585)
Proceeds from sales of other real estate and repossessed assets	853	455
Proceeds from dispositions of premises and equipment	4	---
Capital expenditures	(2,053)	(1,056)
NET CASH USED IN INVESTING ACTIVITIES	(131,449)	(126,714)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	52,204	17,737
Increase in federal funds purchased and securities sold under agreements to repurchase	37,314	74,520
Proceeds from other borrowings	70,230	130,000

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Repayments of other borrowings	(10,000)	(75,000)
Excess tax benefits	59	65
Exercise of stock options	113	142
Retirement of restricted stock	(250)	(56)
Issuance of stock to dividend reinvestment and stock purchase plan	---	64
Dividends paid	(6,095)	(5,118)
NET CASH PROVIDED BY FINANCING ACTIVITIES	143,575	142,354
Net increase in cash and cash equivalents	28,250	36,244
Cash and cash equivalents, beginning of period	109,316	102,721
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$137,566	\$138,965

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

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Notes to Consolidated Financial Statements (Unaudited)

Note 1. Significant Accounting Policies

Basis of Presentation.

This quarterly report presents the consolidated financial statements of Lakeland Bancorp, Inc. (the Company) and its subsidiary, Lakeland Bank (Lakeland). The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry.

The Company's unaudited interim financial statements reflect all adjustments, such as normal recurring accruals that are, in the opinion of management, necessary for the fair presentation of the results of the interim periods. The results of operations for the six months ended June 30, 2015 do not necessarily indicate the results that the Company will achieve for all of 2015. You should read these interim financial statements in conjunction with the audited consolidated financial statements and accompanying notes that are presented in the Lakeland Bancorp, Inc. Annual Report on Form 10-K for the year ended December 31, 2014.

On May 21, 2014, the Company's Board of Directors authorized a 5% stock dividend which was distributed on June 17, 2014 to holders of record as of June 3, 2014. All weighted average, actual share and per share information set forth in this Quarterly Report on Form 10-Q have been adjusted retroactively for the effects of the stock dividend.

The financial information in this quarterly report has been prepared in accordance with the Company's customary accounting practices. Certain information and footnote disclosures required under U.S. GAAP have been condensed or omitted, as permitted by rules and regulations of the Securities and Exchange Commission.

Certain reclassifications have been made to prior period financial statements to conform to the 2015 presentation.

Note 2. Share-Based Compensation

The Company grants stock options, restricted stock and restricted stock units (RSUs) under the 2009 Equity Compensation Program. Share-based compensation expense of \$912,000 and \$638,000 was recognized for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, there was unrecognized compensation cost of \$441,000 related to unvested restricted stock; that cost is expected to be recognized over a weighted average period of approximately 1.8 years. Unrecognized compensation expense related to unvested stock options was approximately \$67,000 as of June 30, 2015 and is expected to be recognized over a period of 1.9 years. Unrecognized compensation expense related to RSUs was approximately \$1.5 million as of June 30, 2015, and that cost is expected to be recognized over a period of 1.7 years.

In the first six months of 2014, the Company granted 1,942 shares of restricted stock at a grant date fair value of \$11.21 per share under the 2009 Equity Compensation Program. Compensation expense on these shares is expected to average approximately \$4,000 per year over a five year period.

In the first six months of 2015, the Company granted 129,509 RSUs at a weighted average grant date fair value of \$11.06 per share under the Company's 2009 Equity Compensation Program. These units vest within a range of two to three years. A portion of these RSUs will vest subject to certain performance conditions in the restricted stock unit agreement. There are also certain provisions in the compensation program which state that if a holder of the RSUs reaches a certain age and years of service, the person has effectively earned a portion of the RSUs at that time.

Compensation expense on these restricted stock units is expected to average approximately \$477,000 per year over a three year period. In the first six months of 2014, the Company granted 127,797 RSUs at a weighted average grant date fair value of \$10.66 per share under the Company's 2009 Equity Compensation Program. Compensation expense on these RSUs is expected to average approximately \$453,000 per year over a three year period.

There were no grants of stock options in the first six months of 2015 or 2014.

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Option activity under the Company's stock option plans is as follows:

	Number of shares	Weighted average exercise price	Weighted remaining average contractual term (in years)	Aggregate intrinsic value
Outstanding, January 1, 2015	311,705	\$9.69		\$681,861
Issued	---	---		
Exercised	(15,500)	7.30		
Forfeited	(3,462)	12.28		
Expired	---	---		
Outstanding, June 30, 2015	292,743	\$9.78	3.76	\$653,340
Options exercisable at June 30, 2015	271,743	\$9.80	3.43	\$601,293

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the first half of 2015 and the exercise price, multiplied by the number of in-the-money options).

The aggregate intrinsic value of stock options exercised during the six months ended June 30, 2015 and 2014 was \$63,000 and \$42,000, respectively. Exercise of stock options during the first six months of 2015 and 2014 resulted in cash receipts of \$113,000 and \$86,000, respectively.

Information regarding the Company's restricted stock and changes during the six months ended June 30, 2015 is as follows:

	Number of shares	Weighted average price
Outstanding, January 1, 2015	160,284	\$9.21
Granted	---	---
Vested	(86,470)	9.11
Forfeited	(88)	9.39
Outstanding, June 30, 2015	73,726	\$9.32

Information regarding the Company's RSUs (all unvested) and changes during the six months ended June 30, 2015 is as follows:

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	Number of shares	Weighted average price
Outstanding, January 1, 2015	98,535	\$ 10.64
Granted	129,509	11.06
Vested	(25,566)	11.02
Forfeited	(515)	10.74
Outstanding, June 30, 2015	201,963	\$ 10.86

Table of Contents**Note 3. Comprehensive Income**

The components of other comprehensive income are as follows:

	June 30, 2015			June 30, 2014		
	Before tax amount	Tax Benefit (Expense) (in thousands)	Net of tax amount	Before tax amount	Tax Benefit (Expense) (in thousands)	Net of tax amount
For the quarter ended:						
Net unrealized gains on available for sale securities						
Net unrealized holding gains (losses) arising during period	(\$3,466)	\$1,289	(\$2,177)	\$4,325	(\$1,528)	\$2,797
Reclassification adjustment for net gains arising during the period	(26)	9	(17)	---	---	---
Net unrealized gains (losses)	(\$3,492)	\$1,298	(\$2,194)	\$4,325	(\$1,528)	\$2,797
Change in minimum pension liability	8	(3)	5	8	(3)	5
Other comprehensive income (loss), net	(\$3,484)	\$1,295	(\$2,189)	\$4,333	(\$1,531)	\$2,802
For the six months ended:						
Net unrealized gains on available for sale securities						
Net unrealized holding gains arising during period	\$759	(\$261)	\$498	\$9,040	(\$3,255)	\$5,785
Reclassification adjustment for net gains arising during the period	(26)	9	(17)	(3)	1	(2)
Net unrealized gains	\$733	(\$252)	\$481	\$9,037	(\$3,254)	\$5,783
Change in minimum pension liability	16	(6)	10	16	(6)	10
Other comprehensive income, net	\$749	(\$258)	\$491	\$9,053	(\$3,260)	\$5,793

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

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Changes in Accumulated Other Comprehensive Income by Component (a)

	For the Three Months Ended June 30, 2015			For the Three Months Ended June 30, 2014		
	Unrealized Gains on Available-for-sale Securities	Pension Items	Total	Unrealized Gains (Losses) on Available-for-sale Securities	Pension Items	Total
Beginning Balance	\$4,206	(\$3)	\$4,203	(\$1,661)	(\$23)	(\$1,684)
(in thousands)						
Other comprehensive income (loss) before classifications	(2,177)	5	(2,172)	2,797	5	2,802
Amounts reclassified from accumulated other comprehensive income	(17)	---	(17)	---	---	---
Net current period other comprehensive income (loss)	(2,194)	5	(2,189)	2,797	5	2,802
Ending balance	\$2,012	\$2	\$2,014	\$1,136	(\$18)	\$1,118
(a) All amounts are net of tax.						

Changes in Accumulated Other Comprehensive Income by Component (a)

	For the Six Months Ended June 30, 2015			For the Six Months Ended June 30, 2014		
	Unrealized Gains and Losses on Available-for-sale Securities	Pension Items	Total	Unrealized Gains and Losses on Available-for-sale Securities	Pension Items	Total
Beginning Balance	\$1,531	(\$8)	\$1,523	(\$4,647)	(\$28)	(\$4,675)
(in thousands)						
Other comprehensive income before classifications	498	10	508	5,785	10	5,795
Amounts reclassified from accumulated other comprehensive income	(17)	---	(17)	(2)	---	(2)

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Net current period other comprehensive income	481	10	491	5,783	10	5,793
Ending balance	\$2,012	\$2	\$2,014	\$1,136	(\$18)	\$1,118

(a) All amounts are net of tax.

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	For the Six Months Ended	
	June 30,	2014
	2015	
Supplemental schedule of noncash investing and financing activities:	(in thousands)	
Cash paid during the period for income taxes	\$7,645	\$6,657
Cash paid during the period for interest	5,016	4,225
Transfer of loans and leases into other repossessed assets and other real estate owned	760	722

Note 5. Earnings Per Share

The following schedule shows the Company's earnings per share for the periods presented:

(In thousands, except per share data)	For the Three Months Ended		For the Six Months Ended	
	June 30,	2014	June 30,	2014
	2015		2015	
Net income available to common shareholders	\$7,862	\$7,781	\$16,192	\$14,944
Less: earnings allocated to participating securities	68	62	120	97
Net income allocated to common shareholders	\$7,794	\$7,719	\$16,072	\$14,847
Weighted average number of common shares outstanding - basic (1)	37,854	37,740	37,827	37,711
Share-based plans (1)	134	110	134	117
Weighted average number of common shares - diluted (1)	37,988	37,850	37,961	37,828
Basic earnings per share	\$0.21	\$0.20	\$0.42	\$0.39
Diluted earnings per share	\$0.21	\$0.20	\$0.42	\$0.39

(1) Adjusted for 5% stock dividend distributed June 17, 2014 to shareholders of record on June 3, 2014 .

Options to purchase 83,437 shares of common stock at a weighted average price of \$12.29 per share were outstanding and were not included in the computations of diluted earnings per share for the three and six months ended June 30, 2015 because the exercise price was greater than the average market price.

Options to purchase 357,163 shares of common stock at a weighted average price of \$11.91 per share were outstanding and were not included in the computation of diluted earnings per share for the three and six months ended June 30, 2014 because the exercise price was greater than the average market price.

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AVAILABLE FOR SALE	June 30, 2015			Fair Value	December 31, 2014			Fair Value
	Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses		Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. treasury and U.S. government agencies	\$100,385	\$419	\$(593)	\$100,211	\$94,466	\$261	\$(807)	\$93,920
Mortgage-backed securities, residential	300,443	2,771	(1,815)	301,399	309,162	2,868	(2,075)	309,955
Mortgage-backed securities, multifamily	10,277	11	(68)	10,220	4,973	3	---	4,976
Obligations of states and political subdivisions	30,597	723	(232)	31,088	29,764	888	(133)	30,519
Other debt securities	496	7	---	503	494	11	---	505
Equity securities	16,361	2,145	(241)	18,265	16,196	1,589	(211)	17,574
	\$458,559	\$6,076	\$(2,949)	\$461,686	\$455,055	\$5,620	\$(3,226)	\$457,449

HELD TO MATURITY	June 30, 2015			Fair Value	December 31, 2014			Fair Value
	Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses		Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government agencies	\$35,509	\$317	\$(164)	\$35,662	\$20,477	\$232	\$(84)	\$20,625
Mortgage-backed securities, residential	38,950	564	(372)	39,142	42,309	645	(385)	42,569
Mortgage-backed securities, multifamily	2,209	---	(63)	2,146	2,259	---	(60)	2,199
Obligations of states and political subdivisions	44,940	434	(379)	44,995	41,401	658	(90)	41,969
Other debt securities	1,525	115	---	1,640	1,530	138	---	1,668
	\$123,133	\$1,430	\$(978)	\$123,585	\$107,976	\$1,673	\$(619)	\$109,030

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The following table shows investment securities by stated maturity. Securities backed by mortgages have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay, and are, therefore, classified separately with no specific maturity date (in thousands):

	June 30, 2015			
	<u>Available for Sale</u>		<u>Held to Maturity</u>	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$3,312	\$3,362	\$6,345	\$6,357
Due after one year through five years	85,465	85,836	12,108	12,462
Due after five years through ten years	41,319	41,272	56,707	56,749
Due after ten years	1,382	1,332	6,814	6,729
	131,478	131,802	81,974	82,297
Mortgage-backed securities	310,720	311,619	41,159	41,288
Equity securities	16,361	18,265	---	---
Total securities	\$458,559	\$461,686	\$123,133	\$123,585

The following table shows proceeds from sales of securities, gross gains and gross losses on sales or calls of securities and other than temporary impairments for the periods indicated (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Sale proceeds	\$11,472	\$17,020	\$11,472	\$17,020
Gross gains	28	340	28	346
Gross losses	(11)	(340)	(11)	(344)

The above sales in 2014 include sales of \$1.4 million in held to maturity mortgage-backed securities of which the Company had already collected over 90% of the principal outstanding. The Company realized \$73,000 in gains on sales of these securities.

Gains or losses on sales of investment 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 \$351.5 million and \$356.1 million at June 30, 2015 and December 31, 2014, 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 June 30, 2015 and December 31, 2014:

June 30, 2015 AVAILABLE FOR SALE	Less than 12 months Unrealized		12 months or longer Unrealized		Number of securities	Total Unrealized	
	Fair value	Losses	Fair value	Losses		Fair value	Losses
(dollars in thousands)							
U.S. treasury and U.S. government agencies	\$ 60,180	\$ 571	\$ 3,978	\$ 22	13	\$ 64,158	\$ 593
Mortgage-backed securities, residential	78,644	537	54,895	1,278	37	133,539	1,815
Mortgage-backed securities, multifamily	5,235	68	---	---	1	5,235	68
Obligations of states and political subdivisions	6,852	139	1,436	93	17	8,288	232
Equity securities	---	---	4,868	241	2	4,868	241
	\$ 150,911	\$ 1,315	\$ 65,177	\$ 1,634	70	\$ 216,088	\$ 2,949

HELD TO MATURITY

U.S. government agencies	\$ 15,688	\$ 164	\$ ---	\$ ---	3	\$ 15,688	\$ 164
Mortgage-backed securities, residential	16,372	189	7,382	183	9	23,754	372
Mortgage-backed securities, multifamily	1,259	12	887	51	2	2,146	63
Obligations of states and political subdivisions	16,594	325	1,599	54	29	18,193	379
	\$ 49,913	\$ 690	\$ 9,868	\$ 288	43	\$ 59,781	\$ 978

December 31, 2014 AVAILABLE FOR SALE	Less than 12 months Unrealized		12 months or longer Unrealized		Number of securities	Total Unrealized	
	Fair value	Losses	Fair value	Losses		Fair value	Losses
(dollars in thousands)							
U.S. government agencies	\$ 5,057	\$ 28	\$ 46,135	\$ 779	11	\$ 51,192	\$ 807
Mortgage-backed securities, residential	34,832	177	74,414	1,898	28	109,246	2,075
Obligations of states and political subdivisions	1,266	29	5,033	104	12	6,299	133
Other debt securities	---	---	---	---	---	---	---
Equity securities	---	---	4,819	211	2	4,819	211
	\$ 41,155	\$ 234	\$ 130,401	\$ 2,992	53	\$ 171,556	\$ 3,226

HELD TO MATURITY

U.S. government agencies	\$	---	\$	---	\$	5,736	\$	84	1	\$	5,736	\$	84
Mortgage-backed securities, residential		6,236		50		17,557		335	8		23,793		385
Mortgage-backed securities, multifamily		---		---		2,199		60	2		2,199		60
Obligations of states and political subdivisions		1,290		7		4,206		83	13		5,496		90
	\$	7,526	\$	57	\$	29,698	\$	562	24	\$	37,224	\$	619

Management has evaluated the securities in the above table and has concluded that none of the securities are other-than-temporarily impaired. The cause of the fair values being below cost is due to interest rate movements and is deemed temporary. All investment securities are evaluated on a periodic basis to identify any factors that would require a further analysis. In evaluating the Company's securities, management considers the following items:

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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 financial condition of the underlying issuer;
 The credit ratings of the underlying issuer and if any changes in the credit rating have occurred;
 The length of time the security's fair value has been less than amortized cost; and
 Adverse conditions related to the security or its issuer if the issuer has failed to make scheduled payments or other factors.

If the above factors indicate that an additional analysis is required, management will perform and consider the results of a discounted cash flow analysis.

As of June 30, 2015, the equity securities include investments in other financial institutions for market appreciation purposes. Those equities had a purchase price of \$2.7 million and a market value of \$4.8 million as of June 30, 2015.

As of June 30, 2015, equity securities also included \$13.5 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 with 60 days notice at the net asset value less unpaid management fees with the approval of the fund manager. As of June 30, 2015, the net amortized cost equaled the market value of the investment. There are no unfunded commitments related to this investment.

The funds also include \$10.6 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 June 30, 2015, the amortized cost of these securities was \$10.8 million and the fair value was \$10.6 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 7. Loans, Leases and Other Real Estate.

The following sets forth the composition of Lakeland's loan and lease portfolio as of June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
	(in thousands)	
Commercial, secured by real estate	\$1,613,011	\$1,529,761
Commercial, industrial and other	262,617	238,252
Leases	53,798	54,749
Real estate-residential mortgage	414,339	431,190
Real estate-construction	82,265	64,020
Home equity and consumer	330,664	337,642
Total loans	2,756,694	2,655,614

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Less: deferred fees	(2,177)	(1,788)
Loans, net of deferred fees	\$2,754,517	\$2,653,826

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At June 30, 2015 and December 31, 2014, home equity and consumer loans included overdraft deposit balances of \$498,000 and \$791,000, respectively. At June 30, 2015 and December 31, 2014, the Company had \$667.8 million and \$338.5 million in loans pledged for actual and potential borrowings at the Federal Home Loan Bank of New York (FHLB).

Non-Performing Assets and Past Due Loans

The following schedule sets forth certain information regarding the Company's non-performing assets and its accruing troubled debt restructurings:

(in thousands)	June 30, December 31,	
	2015	2014
Commercial, secured by real estate	\$5,307	\$7,424
Commercial, industrial and other	1,354	308
Leases	79	88
Real estate - residential mortgage	9,098	9,246
Real estate - construction	---	188
Home equity and consumer	3,143	3,415
Total non-accrual loans and leases	\$18,981	\$20,669
Other real estate and other repossessed assets	1,078	1,026
TOTAL NON-PERFORMING ASSETS	\$20,059	\$21,695
Troubled debt restructurings, still accruing	\$12,419	\$10,579

Non-accrual loans included \$2.0 million and \$1.3 million of troubled debt restructurings as of June 30, 2015 and December 31, 2014, respectively. As of June 30, 2015, the Company had \$8.3 million in residential mortgages and consumer home equity loans that were in the process of foreclosure.

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An age analysis of past due loans, segregated by class of loans as of June 30, 2015 and December 31, 2014, is as follows:

	30-59 Day <u>Past Due</u>	60-89 Days <u>Past Due</u>	Greater Than <u>89 Days</u>	Total <u>Past Due</u> (in thousands)	<u>Current</u>	Total Loans <u>and Leases</u>	Recorded Investment greater than 89 Days and <u>still accruing</u>
June 30, 2015							
Commercial, secured by real estate	\$ 2,712	\$ 3,055	\$ 4,264	\$ 10,031	\$ 1,602,980	\$ 1,613,011	\$ -
Commercial, industrial and other	307	859	224	1,390	261,227	262,617	-
Leases	175	51	79	305	53,493	53,798	-
Real estate--residential mortgage	993	216	8,125	9,334	405,005	414,339	47
Real estate--construction	-	-	-	-	82,265	82,265	-
Home equity and consumer	1,156	352	2,574	4,082	326,582	330,664	55
	\$ 5,343	\$ 4,533	\$ 15,266	\$ 25,142	\$ 2,731,552	\$ 2,756,694	\$ 102
December 31, 2014							
Commercial, secured by real estate	\$ 2,714	\$ 2,999	\$ 5,972	\$ 11,685	\$ 1,518,076	\$ 1,529,761	\$ -
Commercial, industrial and other	944	2	308	1,254	236,998	238,252	-
Leases	108	24	88	220	54,529	54,749	-
Real estate--residential mortgage	3,325	354	6,710	10,389	420,801	431,190	-
Real estate--construction	224	-	188	412	63,608	64,020	-
Home equity and consumer	1,583	598	2,951	5,132	332,510	337,642	66
	\$ 8,898	\$ 3,977	\$ 16,217	\$ 29,092	\$ 2,626,522	\$ 2,655,614	\$ 66

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The Company defines impaired loans as all non-accrual loans and leases with recorded investments of \$500,000 or greater. Impaired loans also includes all loans modified in troubled debt restructurings. Impaired loans as of June 30, 2015, June 30, 2014 and December 31, 2014 are as follows:

June 30, 2015	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	\$12,178	\$13,210	\$-	\$203	\$13,001
Commercial, industrial and other	2,015	3,404	-	10	661
Real estate-residential mortgage	2,329	2,329	-	-	2,100
Real estate-construction	-	-	-	-	99
Home equity and consumer	764	764	-	-	752
Loans with specific allowance:					
Commercial, secured by real estate	5,466	5,487	346	114	5,430
Commercial, industrial and other	1,082	1,082	42	11	442
Leases	11	11	11	-	6
Real estate-residential mortgage	728	728	63	19	742
Real estate-construction	391	391	1	5	242
Home equity and consumer	1,044	1,044	809	32	1,230
Total:					
Commercial, secured by real estate	\$17,644	\$18,697	\$346	\$317	\$18,431
Commercial, industrial and other	3,097	4,486	42	21	1,103
Leases	11	11	11	-	6
Real estate--residential mortgage	3,057	3,057	63	19	2,842
Real estate-construction	391	391	1	5	341
Home equity and consumer	1,808	1,808	809	32	1,982
	\$26,008	\$28,450	\$1,272	\$394	\$24,705

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June 30, 2014	Recorded Investment in Impaired loans	Contractual Unpaid Principal Balance	Specific Allowance	Interest Income Recognized	Average Investment in Impaired loans
(in thousands)					
Loans without specific allowance:					
Commercial, secured by real estate	\$15,564	\$16,445	\$-	\$205	\$15,170
Commercial, industrial and other	542	923	-	42	1,850
Real estate-residential mortgage	255	304	-	-	276
Real estate-construction	465	2,411	-	-	483
Home equity and consumer	-	-	-	-	-
Loans with specific allowance:					
Commercial, secured by real estate	4,023	4,179	285	87	4,418
Commercial, industrial and other	151	151	5	4	183
Real estate-residential mortgage	-	-	-	-	-
Real estate-construction	-	-	-	-	-
Home equity and consumer	1,267	1,283	493	30	1,219
Total:					
Commercial, secured by real estate	\$19,587	\$20,624	\$285	\$292	\$19,588
Commercial, industrial and other	693	1,074	5	46	2,033
Real estate--residential mortgage	255	304	-	-	276
Real estate-construction	465	2,411	-	-	483
Home equity and consumer	1,267	1,283	493	30	1,219
	\$22,267	\$25,696	\$783	\$368	\$23,599

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December 31, 2014	Recorded Investment in Impaired	Contractual Unpaid Principal loans Balance	Specific Allowance (in thousands)	Interest Income Recognized	Average Investment in Impaired loans
Loans without specific allowance:					
Commercial, secured by real estate	\$14,172	\$15,520	\$-	\$436	\$16,092
Commercial, industrial and other	327	1,697	-	43	1,513
Real estate-residential mortgage	1,681	1,681	-	-	308
Real estate-construction	188	552	-	-	464
Home equity and consumer	741	741	-	7	153
Loans with specific allowance:					
Commercial, secured by real estate	5,666	5,818	634	156	3,858
Commercial, industrial and other	425	425	10	9	342
Real estate-residential mortgage	1,238	1,238	217	19	438
Real estate-construction	-	-	-	-	-
Home equity and consumer	1,255	1,255	1,031	41	975
Total:					
Commercial, secured by real estate	\$19,838	\$21,338	\$634	\$592	\$19,950
Commercial, industrial and other	752	2,122	10	52	1,855
Real estate--residential mortgage	2,919	2,919	217	19	746
Real estate-construction	188	552	-	-	464
Home equity and consumer	1,996	1,996	1,031	48	1,128
	\$25,693	\$28,927	\$1,892	\$711	\$24,143

Interest that would have been accrued on impaired loans during the first six months of 2015 and 2014 had the loans been performing under original terms would have been \$794,000 and \$885,000, respectively. Interest that would have accrued for the year ended December 31, 2014 was \$1.8 million.

Credit Quality Indicators

The class of loans 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 commercial 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 commercial 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.

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The following table shows the Company's commercial loan portfolio as of June 30, 2015 and December 31, 2014, by the risk ratings discussed above (in thousands):

June 30, 2015	Commercial, secured by real estate	Commercial, industrial and other	Real estate- construction
Risk Rating			
1	\$---	\$1,543	\$---
2	---	9,845	---
3	65,458	51,222	---
4	542,648	90,047	10,866
5	871,014	77,814	66,877
5W - Watch	51,083	13,349	113
6 - Other Assets Especially Mentioned	38,173	5,330	1,996
7 - Substandard	44,635	13,467	2,413
8 - Doubtful	---	-	---
9 - Loss	---	-	---
Total	\$1,613,011	\$262,617	\$82,265

December 31, 2014	Commercial, secured by real estate	Commercial, industrial and other	Real estate- construction
Risk Rating			
1	\$---	\$1,040	\$---
2	---	8,755	---
3	69,243	30,386	---
4	479,667	91,836	7,527
5	867,023	69,723	51,833
5W - Watch	40,991	15,572	225
6 - Other Assets Especially Mentioned	27,764	8,057	2,710
7 - Substandard	45,073	12,883	1,725
8 - Doubtful	---	---	---
9 - Loss	---	---	---
Total	\$1,529,761	\$238,252	\$64,020

The risk rating tables above do not include consumer or residential loans or leases because they are evaluated on their payment status.

Table of Contents*Allowance for Loan and Lease Losses*

The following table details activity in the allowance for loan and lease losses by portfolio segment for the three and six months ended June 30, 2015 and 2014:

Three Months Ended June 30, 2015	Commercial, secured by industrial real estate and other		Leases	Real estate- residential mortgage	Real estate- construction	Home equity and consumer	Unallocated	Total
	Commercial, secured by industrial real estate and other	Commercial, secured by industrial real estate and other						
Beginning Balance	\$12,560	\$3,307	\$1,038	\$3,298	\$637	\$6,924	\$2,741	\$30,505
Charge-offs	(805)	(64)	(102)	(89)	-	(415)	-	(1,475)
Recoveries	325	42	-	2	6	29	-	404
Provision	1,839	(417)	18	(195)	82	(619)	32	740
Ending Balance	\$13,919	\$2,868	\$954	\$3,016	\$725	\$5,919	\$2,773	\$30,174

Three Months Ended June 30, 2014	Commercial, secured by industrial real estate and other		Leases	Real estate- residential mortgage	Real estate- construction	Home equity and consumer	Unallocated	Total
	Commercial, secured by industrial real estate and other	Commercial, secured by industrial real estate and other						
Beginning Balance	\$14,135	\$5,506	\$460	\$2,968	\$483	\$2,612	\$3,356	\$29,520
Charge-offs	(144)	(599)	(126)	(354)	(25)	(483)	-	(1,731)
Recoveries	320	88	-	3	1	72	-	484
Provision	(269)	(1,394)	320	1,614	77	1,910	(665)	1,593
Ending Balance	\$14,042	\$3,601	\$654	\$4,231	\$536	\$4,111	\$2,691	\$29,866

Six Months Ended June 30, 2015	Commercial, secured by industrial real estate and other		Leases	Real estate- residential mortgage	Real estate- construction	Home equity and consumer	Unallocated	Total
	Commercial, secured by industrial real estate and other	Commercial, secured by industrial real estate and other						
Beginning Balance	\$13,577	\$3,196	\$582	\$4,020	\$553	\$6,333	\$2,423	\$30,684
Charge-offs	(1,351)	(74)	(529)	(106)	(20)	(676)	-	(2,756)
Recoveries	364	84	20	3	106	59	-	636
Provision	1,329	(338)	881	(901)	86	203	350	1,610
Ending Balance	\$13,919	\$2,868	\$954	\$3,016	\$725	\$5,919	\$2,773	\$30,174

Six Months Ended June 30, 2014	Commercial, secured	Commercial, industrial	Leases	Real estate- estate-	Real estate- estate-	Home equity	Unallocated	Total
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Allowance for Loan and Lease Losses:	by							
	real estate	and other	residential mortgage	construction	and consumer			
	(in thousands)							
Beginning Balance	\$14,463	\$5,331	\$504	\$3,214	\$542	\$2,737	3,030	29,821
Charge-offs	(1,791)	(612)	(165)	(509)	(25)	(1,084)	-	(4,186)
Recoveries	354	679	-	9	1	106	-	1,149
Provision	1,016	(1,797)	315	1,517	18	2,352	(339)	3,082
Ending Balance	\$14,042	\$3,601	\$654	\$4,231	\$536	\$4,111	\$2,691	\$29,866

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Loans receivable summarized by portfolio segment and impairment method are as follows:

At June 30, 2015	Commercial, secured by real estate	Commercial, industrial and other	Leases	Real estate- residential mortgage	Real estate- construction	Home equity and consumer	Total
Ending Balance: Individually evaluated for impairment	\$17,644	\$3,097	\$11	\$3,057	\$391	\$1,808	\$26,008
Ending Balance: Collectively evaluated for impairment	1,595,367	259,520	53,787	411,282	81,874	328,856	\$2,730,686
Ending Balance (1)	\$1,613,011	\$262,617	\$53,798	\$414,339	\$82,265	\$330,664	