Lakeland bancorp, inc.

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2007 ANNUAL REPORT

Lakeland Bancorp, Inc.

Corporate Profile

Lakeland Bancorp, Inc., is the holding company for Lakeland Bank. With total assets of $2.5 billion as of December 31, 2007, Lakeland is the dominant community bank in northern New Jersey.

As a community bank offering the same products and services as regional and major money center banks, we differentiate ourselves by delivering personalized service to meet the communities' needs. To that end, we have the technology to provide check imaging, bank-by-phone services, corporate cash management, debit cards, an extended ATM network and Internet banking.

Our Mission

To provide customer-centric financial products and services to businesses and consumers.

CORE VALUES:

Customers

- Our customers' needs are our priority.
- We provide solutions based on customer feedback and input.

Employees

- Our Employee Team is the key to our success.
- Our sole distinguishing competitive advantage is the personal, flexible service we provide.

Community

- We are a community bank.
- We are committed to expanding finite resources to benefit the health and economic well-being of the communities we serve.

Shareholders

- Our shareholders should expect and receive above-average returns as a result of focused strategies executed well.

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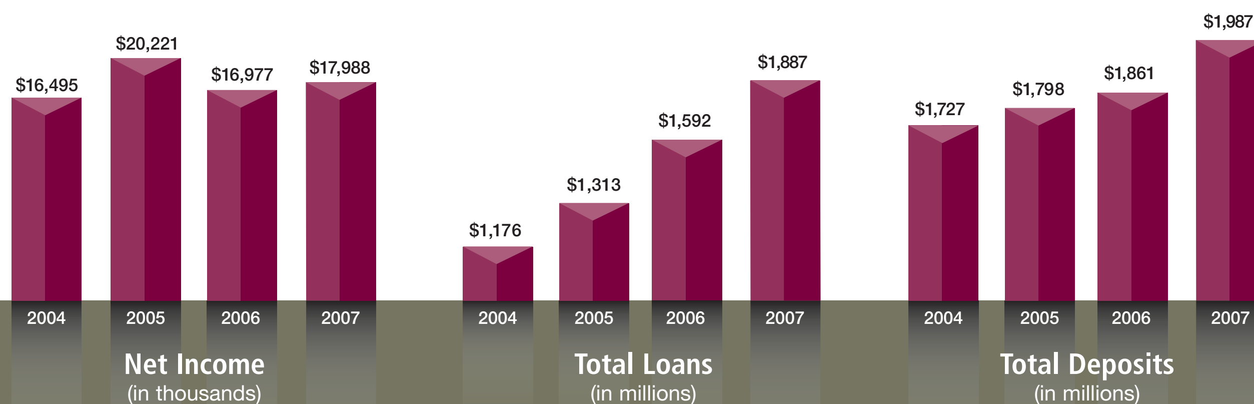
Financial Highlights

Lakeland Bancorp, Inc., and Subsidiaries

FOR THE YEAR	2007	2006	2005
	(in thousands, except per share data)		
Net Income	$ 17,988	$ 16,977	$ 20,221
Return on Average Assets	0.76%	0.76%	0.94%
Return on Average Stockholders' Equity	8.81%	8.85%	10.55%
Net Interest Margin	3.41%	3.39%	3.73%
Efficiency Ratio	63.18%	62.28%	59.76%
Dividends Paid	$ 8,859	$ 8,517	$ 8,307
PER SHARE DATA(¹)			
Earnings Per Share:			
Basic	$ 0.78	$ 0.73	$ 0.86
Diluted	$ 0.77	$ 0.73	$ 0.85
Cash Dividends Per Common Share	$ 0.38	$ 0.37	$ 0.35
Book Value Per Common Share	$ 9.09	$ 8.61	$ 8.24
Weighted Average Shares Outstanding:			
Basic	23,187	23,141	23,637
Diluted	23,285	23,292	23,815
AT YEAR END			
Total Loans	$1,886,535	$1,591,644	$1,312,767
Total Deposits	1,987,405	1,860,627	1,798,160
Total Assets	2,513,771	2,263,573	2,206,033
Stockholders' Equity	211,599	199,500	191,781
Loans to Deposits	94.92%	85.54%	73.01%
Ratio of Net Charge-offs to Average Loans Outstanding	0.28%	0.10%	0.41%
Ratio of Non-performing Assets to Total Assets	0.41%	0.20%	0.18%
Tier 1 Leverage Ratio	8.11%	7.51%	7.49%
Total Risk Based Capital Ratio	11.08%	10.96%	12.47%

(¹) Restated for 2007, 2006 and 2005 stock dividends.



Report to Shareholders

December 31, 2007

From left:
Arthur L. Zande
Roger Bosma
John W. Fredericks

Dear Shareholder:

Our growth continues.

We reached a new milestone at your bank, with assets at year-end exceeding $2.5 billion for the first time in our 38-year history of unbroken annual asset increases, making us the fourth largest commercial bank headquartered in New Jersey. Assets increased 11% from $2.3 billion at the beginning of the year. Loans increased 19% to $1.88 billion, deposits increased 7% to nearly $2 billion, and net income increased 6% to $18 million, demonstrating growth in these three segments of our business at a time when many financial institutions are experiencing negative balance sheet growth.

Diluted earnings per share were $0.77 in 2007 versus $0.73 in 2006, a 6% increase. Book value per share ended the year at $9.09 (up from $8.61 in 2006); return on equity was 8.81% compared to 8.85% a year ago. We opened two new branch offices in 2007 in New Jersey—a traditional one in North Haledon and an upgraded one in Morristown.

You should know that it is not our practice to engage in subprime residential mortgage lending and we have no collateralized debt obligations in our portfolio. Our lending policies have been consistently conservative over these many years, resulting in historically low loan loss ratios.

You received a 5% stock dividend in 2007, the twenty-sixth in our history (in addition to four two-for-one stock splits). This resulted in a subsequent 5% increase in your dividend as well. You were paid a $0.40 per share dividend in 2007, continuing our uninterrupted pattern of sending annual cash dividend payments since 1997.

The market was not as kind to your stock price as it might have been, based on the fundamentals of our bank. Generally speaking, the stock responded negatively to the reduced demand for the financial sector and a less favorable yield curve environment. We believe we are well positioned going forward to take advantage of any more favorable yield curve that may materialize.

Bruce G. Bohuny, a founding Director, a Vice Chairman, and a Director largely responsible for the success of our bank, became a Director Emeritus under our director age retirement program. We look forward to his continued counsel and support. We welcomed Bruce D. Bohuny as a director this past year. Roger Bosma, President and CEO since 1999, retired in April 2008. The bank grew from $500 million with 18 banking locations to $2.5 billion in assets with 49 banking locations during his tenure. The organization he built is a legacy to his exceptional banking expertise and is a terrific platform for future growth. Fortunately, we will continue to benefit from Roger's knowledge as he continues to serve as a Director.

Your Board of Directors, with the aid of an outside recruitment firm, interviewed eight highly qualified bankers to succeed Roger Bosma. We are delighted to announce that Thomas Shara is, without question, the most qualified banker to lead our organization at this juncture. With his twenty-five years of experience in the North Jersey banking market and exceptional background in conservative lending and community bank management in a larger bank than ours, it is hard to imagine that your investment will not prosper and grow in the years ahead.

An independent community bank with great potential is a worthy long-term investment for your portfolio. Your continued support is essential and greatly appreciated.

Sincerely,

John W. Fredericks
Chairman of the Board

Arthur L. Zande
Vice Chairman of the Board

Roger Bosma
President & CEO

Introducing Thomas J. Shara

It is with great enthusiasm and pleasure that I accept the position of President and CEO of Lakeland Bancorp. As a resident of northern New Jersey, an experienced banker and longtime shareholder, I have been impressed with the excellent track record of Lakeland Bank and the strides it has made in a consolidating industry. Its community involvement and dedicated staff, along with its extensive product line and exceptional customer service, have made Lakeland Bank one of New Jersey's foremost banks. I look forward to continuing these fine traditions and to further positioning Lakeland Bank as the financial service provider of choice in the markets we serve. We will remain on the leading edge of innovative products, customized solutions, and keeping our customers at the forefront of everything we do, while always delivering the highest level of service.

Sincerely,

Thomas J. Shara
President & CEO

About Thomas J. Shara

Prior to joining Lakeland Bancorp, Shara served as President and Chief Lending Officer of TD Banknorth's Mid-Atlantic Division, which includes New Jersey, New York and Pennsylvania. He was responsible for all aspects of commercial lending, including a loan portfolio with outstandings in excess of $3.5 billion. He also oversaw a network of 160 branches in New York, New Jersey and Pennsylvania. Prior to TD Banknorth acquiring Hudson United Bank, Mr. Shara was Executive Vice President and Senior Loan Officer at Hudson United, a $9 billion commercial bank, where he oversaw organic growth and was responsible for integrating over 30 acquisitions.

Board of Directors

Standing from left:

- **Robert Nicholson III** President, Eastern Propane
- **Joseph O'Dowd** President, O'Dowd Advertising
- **Bruce D. Bohuny** President, Brooks LTD.
- **Stephen R. Tilton, Sr.** Chairman and Chief Executive Officer, Tilton Securities, LLC
- **Mark J. Fredericks** President, Keil Oil, Inc., and Fredericks Fuel and Heating Service
- **George H. Guptill, Jr.** Chairman, Franklin Mutual Insurance Company
- **Robert E. McCracken** Funeral Director/Owner, Smith-McCracken Funeral Home
- **Janeth C. Hendershot** Vice President, Munich Reinsurance America, Inc., A Reinsurance Company
- **Paul G. Viall, Jr.** President and Chief Executive Officer, Ridgecrest Holdings, LLC
- **Mary Ann Deacon** Secretary and Treasurer, Deacon Homes, Inc.

Sitting from left:

- **John W. Fredericks** Former Chairman, Fredericks Fuel and Heating Service
- **Roger Bosma** President and Chief Executive Officer, Lakeland Bancorp, Inc., and Lakeland Bank
- **Arthur L. Zande** Former President, Lakeland Bank

Executive Management Team

From left:

- **James R. Noonan** Executive Vice President and Chief Credit Officer
- **Roger Bosma** President and Chief Executive Officer
- **Robert A. Vandenbergh** Senior Executive Vice President and Chief Loan Officer
- **Steven Schachtel** President of Lakeland Bank Equipment Leasing Division
- **Jeffrey J. Buonforte** Executive Vice President and Chief Retail Officer
- **Louis E. Luddecke** Executive Vice President and Chief Operations Officer
- **Joseph F. Hurley** Executive Vice President and Chief Financial Officer

More than a hometown feeling...

2007 marked Lakeland Bank's 38th year of customer-centric community banking service. The community bank of choice for northern New Jersey, Lakeland Bank prides itself on its differentiating factors—outstanding customer service and local decision-making. We have grown hand in hand with our customers and communities, with 49 offices spanning the area from the Hudson to the Delaware. Lakeland Bank offers comprehensive products and services, which develop and evolve based on our primary goal—to meet our customers' needs. It is the focus, vision and teamwork toward that goal that keep Lakeland Bank making a difference—for every customer we serve.

Growth and Performance

Lakeland Bank had another solid year of growth and performance. Our total assets exceeded $2.5 billion, the highest in our history. We showed significant growth in both loans and deposits. Our loan profile continues to grow, and yet the quality of our assets continues to be strong and uncompromised. Lakeland Bank has never had any program tailored to subprime borrowers.

In comparison to 2006, earnings reflected higher net interest income resulting from loan and deposit growth. Notably, this is the 29th consecutive year that we have provided quarterly cash dividends. Additionally, a five percent stock dividend was declared early in the fourth quarter.

In 2007 we continued to grow our franchise in a strong yet controlled fashion. We proudly celebrated the second quarter with two new locations. In May, we opened our newly relocated Morristown office, conveniently located across from Morristown Memorial Hospital on Madison Avenue. June followed with the grand opening of our North Haledon office on Belmont Avenue. Both offices provide plenty of off-street parking, are spacious, offer extended hours, and have safe deposit boxes and the convenience of drive-up banking and ATM services. Plans for 2008 include the opening of an office on Black Oak Ridge Road in Wayne, conveniently off Route 23 North.

Akadema \\ **A manufacturer and distributor of innovative sports equipment, Akadema modestly began in the garage of Joseph Gilligan's Ringwood home. Akadema provides the finest baseball and softball products for professional, college, high school and youth athletes, including gloves, bats and accessories. Founded in 1997, Akadema has steadily grown, and in 2007 had the opportunity to purchase a commercial property. Lakeland Bank provided Akadema with a competitive and flexible commercial mortgage loan allowing the company to buy and renovate a commercial building in Hawthorne, N.J.**

"Our purchase of the Hawthorne property was 10 years in the making, but it was worth the wait. We're thankful to Lakeland Bank for making this purchase our field of dreams. Now we have a great property in a great location and are no longer paying rent. To put it simply, it's a 'walk-off' home run—thanks to Lakeland Bank."

–Lawrence Gilligan, President –Joseph Gilligan, CEO

Lakeland Bank

A local leader in banking services

Products, Services and Solutions

Lakeland Bank's comprehensive portfolio offers all the products and services provided by regional and major money center banks. There is a differentiating factor, however: when it comes to customer service, Lakeland Bank proudly stands above the rest. It is "standard of care" at Lakeland Bank to reach out to and follow up with potential, new and established customers. Our intent is to anticipate customer needs based on their individual or business circumstances at any given time. It is our business practice to proactively contact customers to ensure that we are meeting their banking needs and expectations. Lakeland Bank keeps abreast of marketplace trends and optimizes services with ongoing strategic solutions.

New initiatives for 2007 included hosting "Retiring in Comfort" workshops, offering Health Savings Accounts, and providing higher levels of insurance and state-of-the-art online security.

In support of our community seniors, the "Retiring in Comfort" workshops featured topics including estate planning and trusts, income solutions for retirement, Medicaid law, protecting assets, reverse mortgages, planning for long-term care, and investing wisely. Reverse Mortgage Information Kits were made available as an extension of the workshop series.

Lakeland Bank now offers Health Savings Accounts (HSA), which allow employees to make healthcare decisions based upon their individual needs. HSAs allow businesses and employees to take advantage of benefits such as flexible spending, year-to-year savings, individual ownership and tax-free investments.

Depositors with more than $100,000 no longer have to go to multiple banks to be covered by Federal Deposit Insurance. Lakeland Bank now offers a Certificate of Deposit Account Registry Service (CDARS) that provides customers with up to $50 million in Federal Deposit Insurance. Through a sophisticated computer network, CDARS allows customers to manage their funds at Lakeland Bank with one portfolio while receiving only one statement.

Urban Auto Spa \\ **Eddie Dunn built his first car wash in 1995 and completed his flagship Urban Auto Spa location in Franklin Lakes in 1999. Urban Auto Spas provide upscale car furnishings and quality wash and care services. They have a solid customer base and are valued by the communities they serve. Lakeland Bank provided Mr. Dunn with the financing for the acquisition and complete renovation of a second Urban Auto Spa on Route 17 South in Ramsey.**

"Our new location in Ramsey would not have been possible without the quick response and assistance from Lakeland Bank. They provided me with an extremely flexible financing package that was tailored to my specific needs. I highly recommend Lakeland Bank."

–Eddie Dunn, Owner

Retail and Business Banking Needs ...Covered.

Lakeland Bank—

Since phishing scams, identity theft and other forms of online fraud have become more prevalent, Lakeland Bank has taken extra security measures to ensure our customers' ongoing protection. In 2007, we implemented the Multifactor Authentication Program, which represents the latest technology in online banking security.

As an ongoing initiative, Lakeland Bank is making banking more convenient. Many of our offices have extended hours, and some offer the conveniences of seven-day-a-week banking. We extend our availability through Internet banking, an extended ATM network, debit cards and bank-by-phone services. Our online banking services include Anytime Business Banking, which is the quickest way to turn check deposits into cash, with the freedom and control to bank anytime, day or night. While certainly convenient, all of our online services also save both money and trees—going green has never been easier!

As always, Lakeland Bank is fully staffed with financial professionals who can help with all of your banking needs. For example, our mortgage consultants can assist a new homebuyer with purchase and/or construction needs. Our consultants are well versed in all the refinancing options for new and seasoned homeowners.

Our business transactions are customer-centric, as we aim to be the bank of choice for small businesses of northern New Jersey. Our offerings include small-business lines of credit that are convenient, low maintenance and easy to manage. We also provide flexible and innovative construction loans for the purchase and development of commercial and residential properties. In addition, Lakeland Bank offers equipment financing with attractive lease rates and an expedited approval process.

Lakeland Bank's commercial mortgages are flexible and affordable and feature the security of fixed monthly payments for various terms. Additionally, we are a preferred lender for U.S. Small Business Administration (SBA)

Barn Hill Care Center, Inc. \\

The Barn Hill Care Center, Inc. is a 130-bed nursing facility located in Newton, N.J. Since 1966, it has provided skilled nursing care for residents in the local community and beyond. The facility is now ready to expand and has consulted with Lakeland Bank for construction financing. The financing will provide the means for a new 17,000-square-foot rehabilitation wing designed to house a short-stay unit with 20 single-bed rooms.

"This expansion is enabling us to extend our care, which with the aging of the baby boomers will be a much needed asset for years to come. As a community bank, Lakeland understands our commitment to meet the needs of our area residents, and we are proud to have them partnering with us as we extend our services."

–Jim Redfern, President and CEO

We Do More.

loans, allowing qualifying small businesses to obtain loans that would otherwise not be available through conventional channels. Our Asset Based Lending focuses on the cash-conversion cycle and results in increased borrowing and flexibility and competitive costs when compared to other alternatives.

Lakeland Bank offers business customers a wide array of deposit products, from Free Business Checking to Money Market and SWEEP Accounts. Lakeland also provides next-day availability on deposits, improving our customers' cash flow. Remote Capture and Online Banking, as noted above, expand the banking day and provide access to account information—even process loan payments and loan advances on our small-business line of credit. Recognizing the broad range of needs for our business clients and their employees, we have recently expanded our investment service offerings to better align with these needs.

In today's banking environment, investors expect comprehensive products and objective advice from their financial advisors. Lakeland Financial Services, through a partnership with Essex National Securities, Inc., offers a wide range of investment options for consumers, businesses and institutions. The staff of Lakeland Financial Services consists of bank officers who are licensed to sell investment and insurance products and to offer advisory services.

Our financial service officers provide consumers with college and retirement planning as well as pension plans, including 401(k) options for business owners. Also, through Essex National Insurance Agency, we offer term, whole and universal life insurance policies as well as long-term health care policies.

In addition, our financial service officers provide high-net-worth individuals and institutions access to separately managed accounts and strategically managed portfolios, which are based on a product-neutral asset management platform. Lakeland Bank is strongly positioned to assist all of our customers with their unique and individual investment and financial planning needs.

Arthur Jordan, Inc. \\ **In 1957, Arthur Jordan established a school bus transportation company, Arthur Jordan, Inc., upon returning from military service. The company, based out of Butler, provides transportation to school districts throughout Northern New Jersey. Lakeland Bank has been part of the growth process by providing vehicle loans and lines and letters of credit.**

"My father, Arthur Jordan, has worked very hard to make this company successful for the past 50 years. I plan to work even harder to continue that success. My father was an initial investor and one of Lakeland Bank's first customers. Together, my father and I have valued the working relationship we have with Lakeland Bank and we hope to continue to develop that relationship as we look to them for our growing needs."

–Arthur Jordan, President –Mark N. Jordan, Vice President

Interested, Invested,

Woven into the Community

Apple Montessori Schools \\ **In 1971, Mr. and Mrs. Bailey founded the Apple Montessori Schools. They started out with just one school, which was located near their home in Kinnelon. Now, twenty-six years later, with the help of their four daughters, they have 15 private schools located throughout northern New Jersey.**

Year after year, Lakeland Bank proves to be an integral part of its communities. This year was no exception. In 2007, we undertook initiatives to help cultivate our future leaders and community residents with educational programs, scholarships and funding. Our employees gathered and raised money and awareness for residents with developmental disabilities, walked for Juvenile Diabetes Research, and helped build homes for people with substandard housing. We also took proactive steps to help ensure the safety of our area seniors and made efforts to brighten the holidays for those less fortunate. Here are some highlights:

Lakeland Bank participated in Read Across America with local schools. It was founded by the National Education Association to make reading a national pastime and encourage people to share books with children. Lakeland employees shared books with kindergarten, second-grade, third-grade and fifth-grade students.

Lakeland Bank also participated in two banker-led programs to encourage area students to develop good financial habits. The first was in recognition of the 11th annual Teach Children to Save Day. Bank officers went into classrooms to teach over 2,000 students the concept of saving, how interest makes money grow, how to create a spending plan, and the difference between wants and needs. Additional classes were held for the Banking Awareness Program of the N.J. State Department of Banking and Insurance, which emphasized the importance of smart credit. The ABA Education Foundation, a nonprofit subsidiary of the American Bankers Association, sponsored both programs.

This year, Lakeland Bank again sponsored two golf outings, the Sussex County Golf Classic in early July and the 35th annual Lakeland Bank Scholarship Golf Outing in September. This year's scholarship outing once again had an overwhelmingly positive response, drawing over 225 golfers and raising over $65,000. The proceeds fund a scholarship for a student in each high school in the Lakeland Bank area. The Golf Classic supports 17 charities in Sussex County. Between the two outings, Lakeland Bank raised over $105,000.

Other educational funding was provided to the Montville Township Literacy Foundation, to help defray the costs of adult ESL classes. Additionally, Lakeland Bank proudly sponsored the third annual Money$mart Week campaign. The campaign's mission is to provide informational seminars/workshops for Sussex County residents, to help educate

The Baileys' relationship with Lakeland Bank began at the start of their business endeavor, and Lakeland's construction/permanent mortgage financing has funded all of their larger schools. Lakeland Bank is the Apple Montessori Schools' sole depository and lending bank.

"Starting and expanding the Apple Montessori Schools has been our passion, and we've enjoyed every bit of it. Lakeland Bank has been with us since the start. I have them to thank and, of course, all of our daughters for each being a part of the dream."

–Rex C. Bailey, Chairman of the Board

From left: Lynn Morris-Piccolo, Joann Mooney, Robert Howarth, Vanessa Krippner, Ronald Krippner, Pamela Howarth

Involved in You!

them about financial matters, including mortgage financing, retirement, insurances, investments, college financial planning and estate planning.

Team participation by Lakeland Bank employees helped contribute to the 16th annual SCARC Foundation Radiothon, which raises money to benefit more than 600 Sussex County residents with developmental disabilities. Another team effort was recognized early in the year, as Lakeland Bank was honored in January with three awards for our participation in the 2006 Juvenile Diabetes Research Foundation Walk-a-Thon, including the "Mission Possible" award for outstanding team contribution, the Silver award for fundraising and the T-shirt design award. In September, a group of Lakeland employees participated in the 2007 event, had the largest turnout of all teams and exceeded its goal by raising over $15,000.

A team of 25 Lakeland Bank volunteers helped community members move beyond substandard housing by participating in the Paterson and Bergen County Habitat for Humanity Corporate Challenges. Employees were given the day off and were sponsored with a donation toward completion of the project. Additionally, a notable synergy occurred as a result of our employee involvement that resulted in Lakeland Bank purchasing mortgages from Habitat that provided additional funds, thereby enabling Habitat to build 25 to 30 more homes. This is a perfect example of how Lakeland Bank employees seek out opportunities to build relationships—even while they're building houses.

To help protect our communities, Lakeland Bank brought the Senior Crimestoppers program to the Great Falls Health Care Center and the White Birch Center for Subacute Rehabilitation. The program's objective is to provide the safest possible living and working environment for residents and staff of nursing homes and other long-term care facilities and their visitors.

And lastly, we continued the tradition of warming the holidays for those less fortunate. Lakeland Bank collected more than 2,100 toys and gifts for area children through our Share-A-Gift program. This year, employees also took shifts during the Salvation Army's Kettle Campaign, ringing bells, raising money and bringing smiles.

We are proud to be a charitable organization and grateful for all our employees' efforts that make these accomplishments possible.

The McPeek Family \\ **Bill McPeek is a realtor for Century 21 Lazicki in Wantage. As a local resident and community business representative, Bill was familiar with Lakeland Bank and he and his wife, Diane, were customers of the Wantage office. When they had additional family banking needs, the McPeeks met with one of Lakeland's Investment Advisors, who helped them achieve significantly higher returns by investing in mutual funds. Since Bill was pleased with the performance of their investment portfolio at Lakeland, invested additional funds and continued the investment and management of his retirement plans.**

"Our whole family now banks at Lakeland. We love the hometown feeling and excellent personalized service, and we use the online banking too. Our kids, they love the Sunday banking. Lakeland has everything that our family needs in a bank—with convenience to boot."

–Bill and Diane McPeek, Investment Customers

Lakeland Bank

Looking to the Future

Board of Directors

During the second quarter of 2007, we announced and acknowledged the retirement of Bruce G. Bohuny from the Board of Directors. Mr. Bohuny, who was a founding member in 1969, held the position of Vice Chairman of Lakeland Bancorp and Lakeland Bank from May 2003 through 2007. He has been an active and influential board member throughout the history of the bank. We wish him well and thank him for his significant contributions to our bank's growth through the years.

Also during the second quarter, we announced the appointment of Arthur L. Zande as Vice Chairman of the Board of Directors of Lakeland Bancorp, Inc., and its subsidiary, Lakeland Bank. Mr. Zande joined the bank in 1971, was elected to the Board of Directors in 1973 and, prior to his appointment as Vice Chairman, was secretary of both boards. Mr. Zande is the former President of Lakeland Bank.

Advisory Board Members

Helping to keep Lakeland Bank in touch with our local communities and the financial arena at large are our Advisory Board Members. These community leaders and Lakeland Bank advocates serve a dual role. Internally, they assist with and advise on our banking programs and developments. Externally, they serve as liaisons with our local business communities, serving as our voice and information conduit. Each Advisory Board Member represents Lakeland Bank within his or her respective pocket of the community and promotes the bank's products and services to colleagues and local affiliates.

New Horizons

At Lakeland Bank our mission is, simply stated, to provide customer-centric financial products and services to individual retail and business customers. We will continue to carry out this mission with the vision of our officers, directors, employees, and advisory board members, the support of our shareholders, and the focus of our customers and communities, who make it all possible.

Polycel Structural Foam, Inc. \\

In 1996, Kurt Joerger purchased Newton Tool Manufacturing Co., Inc., in Swedesboro, N.J. In 2002, he purchased Polycel Structural Foam, Inc., in Branchburg, N.J. Polycel is a company that produces custom-molded structural foam. Kurt manufactures filters, gaskets and nozzles. Lakeland Bank financed the acquisition of Newton Tool and Manufacturing. Additionally, Lakeland Bank financed the purchase of a 90,000 square-foot building in 2007.

"Lakeland Bank is an important part of what my companies now are. Not only have we grown, but now we also have this fantastic building. Lakeland Bank has been there when I needed them and they offer all of the banking products and services that I could need as a business owner."

–Kurt Joerger, Owner

Banking Office Locations

Andover Office
615 Route 206
Newton, NJ 07860
(973) 383-3301

Bloomingdale Office
28 Main Street
Bloomingdale, NJ 07403
(973) 838-7300

Boonton Office
321 West Main Street
Boonton, NJ 07005
(973) 316-5811

Branchville Office
362 Route 206
Branchville, NJ 07826
(973) 948-5115

Branchville Downtown Office
3 Broad Street
Branchville, NJ 07826
(973) 948-9500

Bristol Glen Office
200 Bristol Glen Drive
Newton, NJ 07860
(973) 940-1190

Butler Office
1410 Route 23 North
North Butler, NJ 07405
(973) 838-1133

Byram Office
80 Route 206
Stanhope, NJ 07874
(973) 448-2961

Caldwell Office
49-53 Bloomfield Avenue
Caldwell, NJ 07006
(973) 618-0193

Carey Avenue Office
6 Carey Avenue
Butler, NJ 07405
(973) 283-9488

Carlstadt Office
325 Garden Street
Carlstadt, NJ 07072
(201) 672-0810

Cedar Crest Village Office
Route 23 South
Pompton Plains, NJ 07444
(973) 839-2880

Englewood Office
42 North Dean Street
Englewood, NJ 07631
(201) 569-9693

Fairfield Office
1275 Bloomfield Avenue
Fairfield, NJ 07004
(973) 575-7373

Frankford (Drive-Up)
134 Route 206
Augusta, NJ 07822
(973) 948-2777

Franklin Office
25 Route 23
Franklin, NJ 07416
(973) 209-4400

Fredon Office
395 Route 94
Fredon, NJ 07860
(973) 579-2775

Hackensack Office
235 Main Street
Hackensack, NJ 07601
(201) 678-1700

Hampton Office
11 Hampton House Road
Newton, NJ 07860
(973) 300-3300

Hardyston Office
3617 Route 94
Hardyston, NJ 07419
(973) 827-0100

Haskell Office
1054 Ringwood Avenue
Haskell, NJ 07420
(973) 616-2590

Hewitt Office
1943 Union Valley Road
Hewitt, NJ 07421
(973) 728-7100

Lafayette Office
37 Route 15
Lafayette, NJ 07848
(973) 383-5500

Little Falls Office
86-88 Main Street
Little Falls, NJ 07424
(973) 237-9253

Milton Office
5729 Berkshire Valley Road
Oak Ridge, NJ 07438
(973) 697-4600

Montville Office
166 Changebridge Road
Montville, NJ 07045
(973) 882-0800

Morristown Office
65 Madison Avenue
Suite 101
Morristown, NJ 07960
(973) 539-4193

Newfoundland Office
2717 Route 23 South
Newfoundland, NJ 07435
(973) 697-2040

North Haledon Office
892 Belmont Avenue
North Haledon, NJ 07508
(973) 427-1035

North Warren Office
1226 Route 94
Frelinghuysen Twp., NJ 07825
(908) 362-6141

Park Place Office
30 Park Place
Newton, NJ 07860
(973) 383-2400

Park Ridge Office
139 Kinderkamack Road
Park Ridge, NJ 07656
(201) 476-0044

Pompton Plains Office
901 Route 23 South
Pompton Plains, NJ 07444
(973) 839-8095

Ringwood Office
45 Skyline Drive
Ringwood, NJ 07456
(973) 962-4400

Rockaway Office
Rockaway Townsquare Mall
Rockaway, NJ 07866
(973) 989-8627

Sparta Office
117 Sparta Avenue
Sparta, NJ 07871
(973) 729-8181

Sparta Downtown Office
48 Sparta Avenue
Sparta, NJ 07871
(973) 729-4400

Stanhope Office
143 Route 183
Stanhope, NJ 07874
(973) 347-4211

Stillwater Office
902 Main Street
Stillwater, NJ 07875
(973) 579-3300

Sussex/Wantage Office
455 Route 23
Wantage, NJ 07461
(973) 875-7155

Teaneck Office
417 Cedar Lane
Teaneck, NJ 07666
(201) 836-7717

Trinity Street (Drive-Up)
29 Trinity Street
Newton, NJ 07860
(973) 383-2400

Vernon Office
529 Route 515
Vernon, NJ 07462
(973) 764-3100

Wanaque Office
103 Ringwood Avenue
Wanaque, NJ 07465
(973) 839-5000

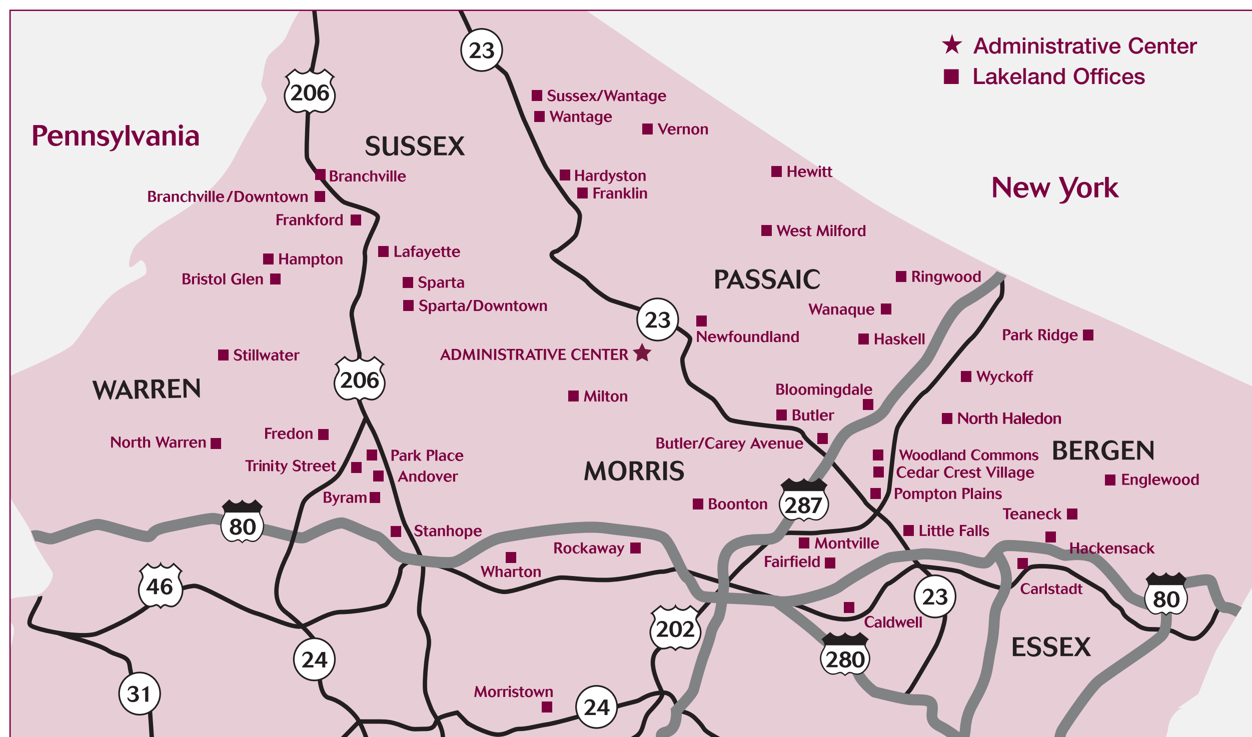
Wantage Office
205 Route 23
Wantage, NJ 07461
(973) 875-3136

West Milford Office
1527 Union Valley Road
West Milford, NJ 07480
(973) 728-7780

Wharton Office
350 North Main Street
Wharton, NJ 07885
(973) 989-1520

Woodland Commons Office
1 Cedar Crest Village Drive
Pompton Plains, NJ 07444
(973) 831-6089

Wyckoff Office
652 Wyckoff Avenue
Wyckoff, NJ 07481
(201) 847-2480



SELECTED CONSOLIDATED FINANCIAL DATA
(Not covered by Report of Independent Registered Public Accounting Firm)

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

[1] Restated for 5% stock dividends in 2007, 2006, 2005 and 2003.
[2] The results of operations include Newton Trust Company from July 1, 2004 forward.
[3] The results of operations include Community State Bank from August 25, 2003 forward.
[4] This is a non-GAAP ratio. "Return on Tangible Equity" is defined as net income as a percentage of average total equity reduced by recorded intangible assets. This may be important to investors that are interested in analyzing our return on equity exclusive of the effect of changes in intangible assets on equity.

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

This section presents a review of Lakeland Bancorp, Inc.'s consolidated results of operations and financial condition. You should read this section in conjunction with the selected consolidated financial data that is presented on the preceding page as well as the accompanying financial statements and notes to financial statements. As used in the following discussion, the term "Company" refers to Lakeland Bancorp, Inc. and "Lakeland" refers to the Company's wholly owned banking subsidiary—Lakeland Bank. The Newton Trust Company (Newton) was merged into Lakeland on November 4, 2005. Newton Financial Corporation ("NFC"), the parent company of Newton, was merged into the Company on July 1, 2004 and Community State Bank (CSB) was merged into Lakeland on August 25, 2003.

STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

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

In addition to the factors disclosed by the Company elsewhere in this document, the following factors, among others, could cause the Company's actual results to differ materially and adversely from such forward-looking statements: pricing pressures on loan and deposit products; competition; changes in economic conditions nationally, regionally and in the Company's markets; the extent and timing of actions of the Federal Reserve Board; changes in levels of market interest rates; clients' acceptance of the Company's products and services; credit risks of lending activities; changes in the conditions of the capital markets in general and in the capital markets for financial institutions in particular and the impact of the war in Iraq on such markets; and the extent and timing of legislative and regulatory actions and reforms.

The above-listed risk factors are not necessarily exhaustive, particularly as to possible future events, and new risk factors may emerge from time to time. Certain events may occur that could cause the Company's actual results to be materially different than those described in the Company's periodic filings with the Securities and Exchange Commission. Any statements made by the Company that are not historical facts should be considered to be forward-looking statements. The Company is not obligated to update and does not undertake to update any of its forward-looking statements made herein.

SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

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

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

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

The Company accounts for impaired loans in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures." Impairment is measured based on the present value of expected

future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable.

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

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

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

FINANCIAL OVERVIEW

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

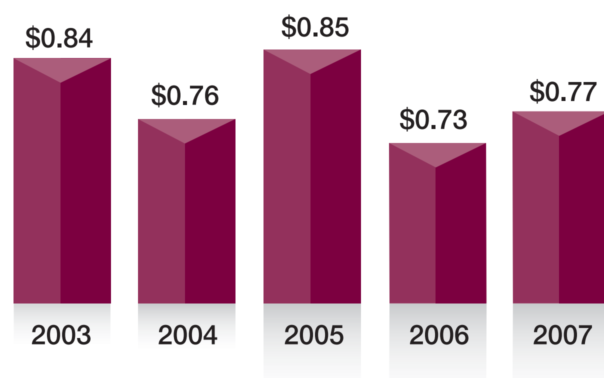
- Total loans and leases increased by $295.4 million or 19% from 2006 to 2007.
- Total assets increased to $2.51 billion, an 11% increase from 2006.
- Net income increased $1.0 million or 6% from 2006 to 2007.
- Lakeland's net interest margin stabilized at 3.41%, up 2 basis points from 2006.
- The Company improved regulatory capital with the issuance of $20.6 million in subordinated debentures and related trust preferred securities.

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

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

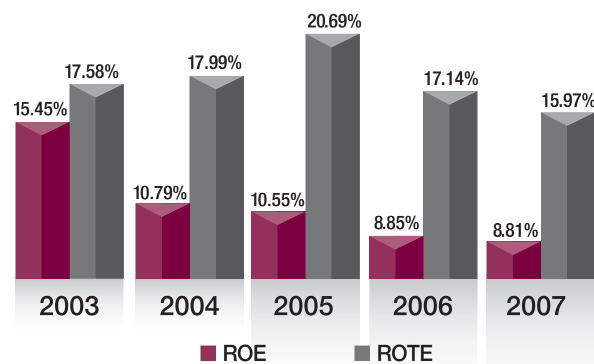
In 2006, Lakeland's earnings were impacted by a balance sheet restructuring where the Company sold $97.3 million in securities yielding 3.47% for a loss of $3.3 million to lower its borrowings and to fund loan growth. Also, in 2006, the Company expensed $300,000 in costs related to a stock offering which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

Earnings per Share (EPS)



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

Return on Equity and Return on Tangible Equity



NET INTEREST INCOME

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

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

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

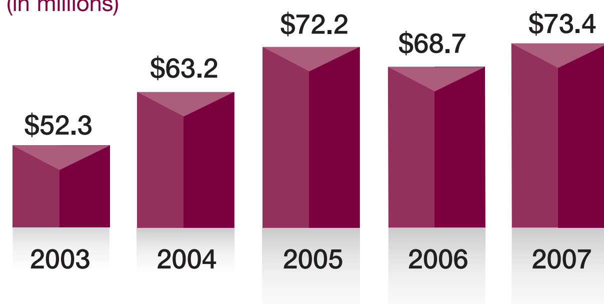
Interest income and expense volume/rate analysis. The following table shows the impact that changes in average balances of the Company's assets and liabilities and changes in average interest rates have had on the Company's net interest income over the past three years. This information is presented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

Interest Income and Expense Volume/Rate Analysis

(tax equivalent basis, in thousands)

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

Net Interest Income
Tax Equivalent Basis
(in millions)



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

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

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

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

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

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

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

NET INTEREST MARGIN

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

PROVISION FOR LOAN AND LEASE LOSSES

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

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

NONINTEREST INCOME

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

Noninterest income declined from $14.5 million in 2005 to $14.2 million in 2006 as a result of the balance sheet restructuring in 2006 referred to above. As a result, losses on sales of investment securities increased from $583,000 in 2005 to $3.0 million in 2006. Offsetting the impact of the loss on the sale of securities was a $1.2 million or 12% increase in service charges on deposit accounts from 2005 to 2006 resulting from the overdraft privilege program that was implemented in May of 2005. Commissions and fees increased $521,000 or 17% to $3.6 million in 2006 due to an increase in investment services brokerage income from $284,000 in 2005 to $1.0 million in 2006. In 2005, Lakeland received commission income on the sales of investment services net of commission expense paid to the licensed sales representatives. In 2006, Lakeland employed its own sales representatives, and as a result, recorded gross commission income received on the sales of investments and $495,000 in commission expense paid to its sales representatives in salaries and benefit expense. Partially offsetting the increase in commission income is a decrease in loan fees of $186,000. Other income increased $340,000 to $1.6 million as a result of a gain on the sale of a branch completed in the first quarter of 2006. Noninterest income represented 17.5% of total revenue in 2006.

NONINTEREST EXPENSE

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

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

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

INCOME TAXES

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

FINANCIAL CONDITION

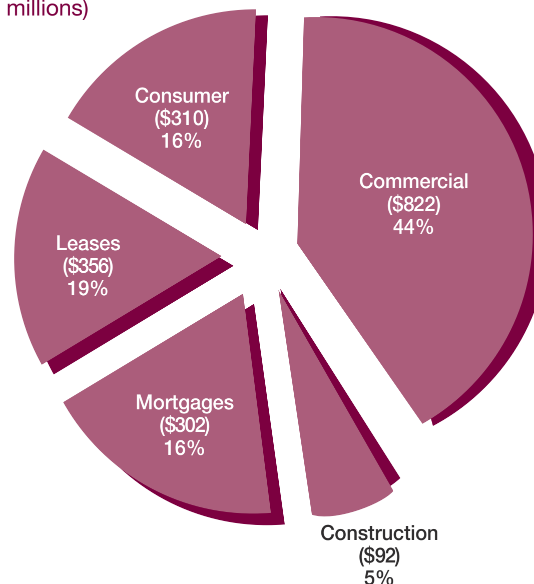
Total assets increased from $2.26 billion on December 31, 2006 to $2.51 billion on December 31, 2007, an increase of $250.2 million, or 11%. Total assets at year-end 2006 increased $57.5 million or 3% from year-end 2005.

LOANS

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

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

Loan Mix
(in millions)



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

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

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

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

At December 31, 2007, there were no concentrations of loans exceeding 10% of total loans outstanding other than loans that are secured by real estate. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other related conditions.

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

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

RISK ELEMENTS

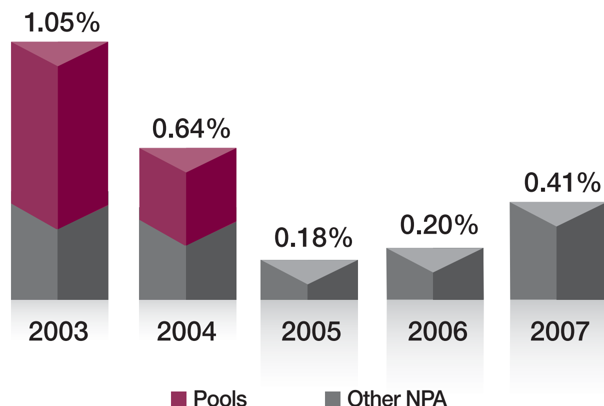
Commercial loans and leases are placed on a non-accrual status with all accrued interest and unpaid interest reversed if (a) because of the deterioration in the financial position of the borrower they are maintained on a cash basis (which means payments are applied when and as received rather than on 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 when foreclosure proceedings are commenced 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 charged 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.

The following schedule sets forth certain information regarding the Company's non-accrual, past due and renegotiated loans and other real estate owned as of December 31, for each of the last five years:

December 31,	**2007**	2006	2005	2004	2003
			(in thousands)		
Non-performing assets:					
Non-accrual loans	**$ 10,159**	$ 4,437	$ 3,907	$ 13,017	$ 16,653
Other real estate and other repossessed assets	**175**	—	—	650	—
TOTAL NON-PERFORMING ASSETS	**$ 10,334**	$ 4,437	$ 3,907	$ 13,667	$ 16,653
Non-performing assets as a percent of total assets	**0.41%**	0.20%	0.18%	0.64%	1.05%
Past due loans*	**$ 667**	$ 876	$ 5,127	$ 2,347	$ 1,248

*Represents loans as to which payments of interest or principal are contractually past due ninety days or more, but which are currently accruing income at the contractually stated rates. A determination is made to continue accruing income on such loans only if collection of the debt is proceeding in due course and collection efforts are reasonably expected to result in repayment of the debt or in its restoration to a current status.

Non Performing Assets
(as a % of Total Assets)



Non-accrual loans increased to $10.2 million on December 31, 2007 from $4.4 million at December 31, 2006. Although the non-accrual loans increased by $5.7 million, three commercial loan customers account for 81% or $4.7 million of the increase. All non-accrual loans are in various stages of litigation, foreclosure, or workout.

For 2007, the gross interest income that would have been recorded, had the loans classified at year-end as non-accrual been performing in conformance with their original loan terms, is approximately $720,000. The amount of interest income actually recorded on those loans for 2007 was $154,000. The resultant loss of $566,000 for 2007 compares to income of $16,000 for 2006 and losses of $338,000 for 2005.

Loans specifically evaluated are deemed impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreements. Loans which are in process of collection will not be classified as impaired. A loan is not impaired during the process of collection of payment if the Company expects to collect all amounts due, including interest accrued at the contractual interest rate. All commercial loans in excess of $250,000 identified as impaired are evaluated by an independent loan review consultant. The Company aggregates consumer loans and residential mortgages for evaluation purposes.

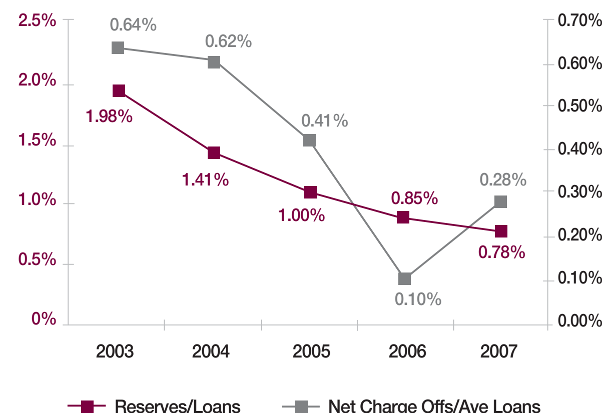
The Company's policy concerning commercial non-accrual loans states that, except for loans which are considered to be fully collectible by virtue of collateral held and in the process of collection, loans are placed on a non-accrual status when payments are 90 days delinquent or more. It is possible for a loan to be on non-accrual status and not be classified as impaired if the balance of such loan is relatively small and, therefore, that loan has not been specifically reviewed for impairment.

Loans, or portions thereof, are charged off in the period that the loss is identified. Until such time, an allowance for loan loss is maintained for estimated losses. With regard to interest income recognition for payments received on impaired loans, as well as all non-accrual loans, the Company follows regulatory guidelines, which apply any payments to principal as long as there is doubt as to the collectibility of the loan balance.

As of December 31, 2007, based on the above criteria, the Company had impaired loans totaling $9.8 million (consisting primarily of non-accrual loans). The impairment of these loans is based on the fair value of the underlying collateral for these loans. Based upon such evaluation, $2.7 million has been allocated to the allowance for loan and lease losses for impairment. At December 31, 2007, the Company also had $5.8 million in loans that were rated substandard that were not classified as non-performing or impaired.

There were no additional loans at December 31, 2007, 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 being included as non-accrual, past due or renegotiated at a future date.

Reserves and Charge Offs



The following table sets forth for each of the five years ended December 31, 2007, the historical relationships among the amount of loans outstanding, the allowance for loan and lease losses, the provision for loan and lease losses, the amount of loans charged off and the amount of loan recoveries:

December 31,	**2007**	2006	2005	2004	2003
			(in thousands)		
Balance of the allowance at the beginning of the year	**$ 13,454**	$ 13,173	$ 16,638	$ 16,899	$ 17,940
Loans charged off:					
Commercial*	**3,601**	1,207	3,872	3,449	4,100
Leases	**425**	90	478	1,515	0
Home equity and consumer	**1,341**	1,493	1,923	1,718	1,817
Real estate — mortgage	**—**	—	—	—	—
Total loans charged off	**5,367**	2,790	6,273	6,682	5,917
Recoveries:					
Commercial	**209**	728	552	102	637
Leases	**2**	83	201	43	16
Home equity and consumer	**415**	531	499	363	350
Real estate — mortgage	**—**	3	1	10	1
Total recoveries	**626**	1,345	1,253	518	1,004
Net charge-offs:	**4,741**	1,445	5,020	6,164	4,913
Addition related to acquisitions	**—**	—	—	2,301	872
Provision for loan and lease losses charged to operations	**5,976**	1,726	1,555	3,602	3,000
Ending balance	**$ 14,689**	$ 13,454	$ 13,173	$ 16,638	$ 16,899
Ratio of net charge-offs to average loans outstanding	**0.28%**	0.10%	0.41%	0.62%	0.64%
Ratio of allowance at end of year as a percentage of year-end total loans	**0.78%**	0.85%	1.00%	1.41%	1.98%

*Includes charge-offs of $3.0 million, $3.4 million and $2.1 million in 2005, 2004 and 2003, respectively, related to the settlement of litigation concerning the commercial lease pools which are further described in Note 14 to the Consolidated Financial Statements.

The ratio of the allowance for loan and lease losses to loans 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. The evaluation process is undertaken on a quarterly basis.

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

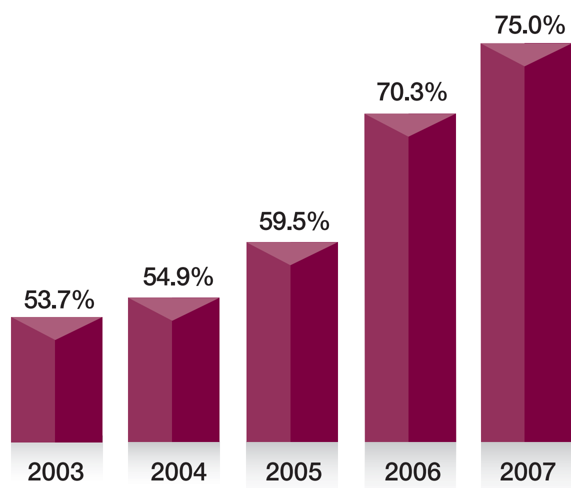
- The establishment of reserve amounts for all specifically identified classified loans that have been designated as requiring attention by the Company or the Company's external loan review consultant.
- The establishment of reserves for pools of homogeneous types of loans not subject to specific review, including 1 – 4 family residential mortgages, and consumer loans.
- The establishment of reserve amounts for the non-classified loans in each portfolio based upon the historical average loss experience for these portfolios and management's evaluation of key factors.

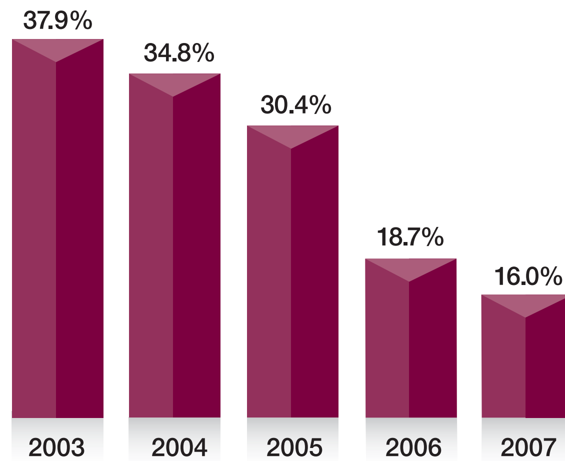
Consideration is given to the results of ongoing credit quality monitoring processes, the adequacy and expertise of the Company's lending staff, underwriting policies, loss histories, delinquency trends, and the cyclical nature of economic and business conditions. Since many of the Company's loans depend 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.

Based upon the process employed and giving recognition to all accompanying factors related to the loan portfolio, management considers the allowance for loan and lease losses to be adequate at December 31, 2007. The preceding statement constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995.

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

At December 31,	**2007**	2006	2005	2004	2003
			(in thousands)		
Commercial	**$ 8,048**	$ 8,327	$ 8,578	$ 12,215	$ 13,042
Leases	**2,310**	1,589	1,243	1,383	994
Home equity and consumer	**2,379**	2,591	2,592	2,411	2,117
Real estate — construction	**1,680**	648	350	146	54
Real estate — mortgage	**272**	299	410	483	692
	$ 14,689	$ 13,454	$ 13,173	$ 16,638	$ 16,899





INVESTMENT SECURITIES

The Company has classified its investment securities into the available for sale and held to maturity categories pursuant to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity 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,	**2007**	2006	2005
		(in thousands)	
U.S. Treasury and U.S. government agencies	**$ 79,945**	$ 81,635	$ 195,914
Obligations of states and political subdivisions	**81,132**	86,193	109,862
Mortgage-backed securities	**200,915**	219,369	335,081
Equity securities	**23,417**	22,025	19,067
Other debt securities	**17,198**	14,125	10,548
	$ 402,607	$ 423,347	$ 670,472

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, 2007:

Available for sale	Within one year	Over one but within five years	Over five but within ten years	After ten years	Total
			(dollars in thousands)		
U.S. government agencies					
Amount	$ 3,000	$ 34,356	$ 7,166	$ 3,930	$ 48,452
Yield	5.24%	4.56%	4.85%	5.01%	4.68%
Obligations of states and political subdivisions					
Amount	4,541	12,029	8,002	1,139	25,711
Yield	5.77%	4.95%	5.50%	5.50%	5.29%
Mortgage-backed securities					
Amount	1,506	7,609	31,050	119,901	160,066
Yield	2.62%	4.34%	4.31%	4.67%	4.57%
Other debt securities					
Amount	500	4,658	8,613	1,830	15,601
Yield	3.99%	4.84%	4.62%	5.56%	4.77%
Other equity securities					
Amount	23,417	—	—	—	23,417
Yield	0.63%	—%	—%	—%	0.63%
Total securities					
Amount	$ 32,964	$ 58,652	$ 54,831	$ 126,800	$ 273,247
Yield	1.90%	4.63%	4.60%	4.70%	4.33%

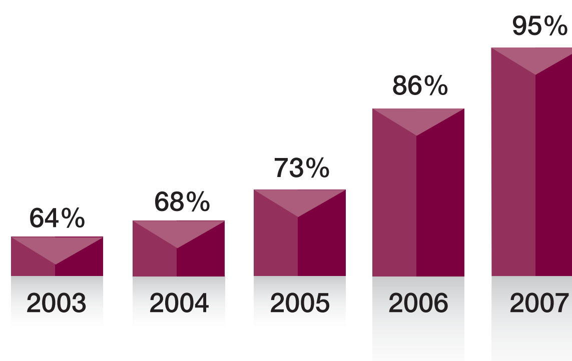
The following table sets forth the maturity distribution and weighted average yields (calculated on the basis of the stated yields to maturity, considering applicable premium or discount), on a fully taxable equivalent basis, of investment securities held to maturity as of December 31, 2007:

Held to maturity	Within one year	Over one but within five years	Over five but within ten years	After ten years	Total
			(dollars in thousands)		
U.S. government agencies					
Amount	$ 7,751	$ 23,742	$ —	$ —	$ 31,493
Yield	3.44%	4.12%	—%	—%	3.95%
Obligations of states and political subdivisions					
Amount	11,466	14,867	25,820	3,268	55,421
Yield	5.07%	4.75%	5.25%	5.76%	5.11%
Mortgage-backed securities					
Amount	1,023	3,643	1,217	34,966	40,849
Yield	3.51%	3.86%	3.89%	4.96%	4.79%
Other debt securities					
Amount	—	—	508	1,089	1,597
Yield	—%	—%	5.01%	5.53%	5.36%
Total securities					
Amount	$ 20,240	$ 42,252	$ 27,545	$ 39,323	$ 129,360
Yield	4.37%	4.32%	5.18%	5.04%	4.73%

DEPOSITS

Total deposits increased from $1.861 billion on December 31, 2006 to $1.987 billion on December 31, 2007, an increase of $126.8 million, or 7%. The major factor driving deposit growth in 2007 was a growth in time deposits, which increased from $502.9 million at December 31, 2006 to $604.2 million at December 31, 2007, an increase of $101.3 million or 20%. The increase resulted from certificate of deposit promotions used to fund loan growth. Total noninterest bearing demand accounts decreased from $303.6 million to $292.0 million, an $11.5 million or 4% decrease. Savings and interest bearing transaction accounts increased from $1.05 billion to $1.09 billion, an increase of $37.0 million or 4%. Total core deposits, which are defined as noninterest bearing deposits and savings and interest-bearing transaction accounts, increased from $1.358 billion on December 31, 2006 to $1.383 billion on December 31, 2007, an increase of $25.5 million or 2%. Total deposits in 2006 increased $62.5 million or 3% from December 31, 2005.

Loan to Deposit Ratio



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, 2007		Year Ended December 31, 2006		Year Ended December 31, 2005	
	Average Balance	**Average Rate**	Average Balance	Average Rate	Average Balance	Average Rate
			(dollars in thousands)			
Noninterest-bearing demand deposits	**$ 300,156**	**—%**	$ 296,853	—%	$ 308,025	—%
Interest-bearing transaction accounts	**749,093**	**2.92%**	708,224	2.66%	695,415	1.68%
Savings	**324,573**	**1.79%**	332,821	1.31%	343,219	0.61%
Time deposits	**538,376**	**4.56%**	474,693	3.87%	411,704	2.68%
Total	**$ 1,912,198**	**2.73%**	$ 1,812,591	2.29%	$ 1,758,363	1.41%

As of December 31, 2007, 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	$ 104,957
Over 3 through 6 months	40,201
Over 6 through 12 months	66,594
Over 12 months	27,942
Total	$ 239,694

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 five sources:

- Net income.
- Deposits. Lakeland can offer new products or change its rate structure in order to increase deposits. In 2007, the Company generated $126.8 million in deposit growth.
- Sales of securities and overnight funds. At year-end 2007, the Company had $273.2 million in securities designated "available for sale."
- Overnight credit lines. Lakeland is a member of the Federal Home Loan Bank of New York (FHLB). One membership benefit is that members can borrow overnight funds. Lakeland has lines of credit of up to $200.0 million available for it to borrow from the FHLB subject to collateral requirements. Lakeland had no borrowings against these lines as of December 31, 2007. Lakeland also has overnight federal funds lines available for it to borrow up to $169.0 million. Lakeland borrowed $7.0 million against these lines as of December 31, 2007.
- Long-term debt. 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. For more information, see Note 6 to the consolidated financial statements.

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, 2007:

	Total	Within one year	After one but within three years	After three but within five years	After five years
			(dollars in thousands)		
Minimum annual rentals or noncancellable operating leases	$ 12,930	$ 1,446	$ 2,764	$ 1,988	$ 6,732
Benefit plan commitments	2,495	147	370	370	1,608
Remaining contractual maturities of time deposits	604,171	528,996	71,706	2,344	1,125
Subordinated debentures	77,322	—	—	—	77,322
Loan commitments	375,807	302,866	34,510	1,683	36,748
Long-term borrowed funds	171,755	30,855	30,900	50,000	60,000
Standby letters of credit	8,647	8,161	486	—	—
Total	$1,253,127	$ 872,471	$ 140,736	$ 56,385	$ 183,535

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). Interest rate sensitivity is often measured by the extent to which mismatches or "gaps" occur in the repricing of assets and liabilities within a given time period. Gap analysis is utilized to quantify such mismatches. A "positive" gap results when the amount of earning assets repricing within a given time period exceeds the amount of interest-bearing liabilities repricing within that time period. A "negative" gap results when the amount of interest-bearing liabilities repricing within a given time period exceeds the amount of earning assets repricing within such time period.

In general, a financial institution with a positive gap in relevant time periods will benefit from an increase in market interest rates and will experience erosion in net interest income if such rates fall. Likewise, a financial institution with a negative gap in relevant time periods will normally benefit from a decrease in market interest rates and will be adversely affected by an increase in rates. By maintaining a balanced interest rate sensitivity position, where interest rate sensitive assets roughly equal interest sensitive liabilities in relevant time periods, interest rate risk can be limited.

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 hedging transactions in place, such as interest rate swaps and caps.

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. 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, consisting of the Chief Executive 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 traditional interest rate sensitivity analysis (also known as "gap analysis") and 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. Traditional gap analysis involves arranging the Company's interest-earning assets and interest-bearing liabilities by repricing periods and then computing the difference (or "interest rate sensitivity gap") between the assets and liabilities that are estimated to reprice during each time period and cumulatively through the end of each time period.

Both interest rate sensitivity modeling and gap analysis are done at a specific point in time and involve 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.

Gap analysis requires estimates as to when individual categories of interest-sensitive assets and liabilities will reprice, and assumes that assets and liabilities assigned to the same repricing period will reprice at the same time and in the same amount. Gap analysis does not account for the fact that repricing of assets and liabilities is discretionary and subject to competitive and other pressures.

The following table sets forth the estimated maturity/repricing structure of the Company's interest-earning assets and interest-bearing liabilities at December 31, 2007. Except as stated below, the amounts of assets or liabilities shown which reprice or mature during a particular period were determined in accordance with the contractual terms of each asset or liability adjusted for prepayments assuming the interest rate environment prevailing in fourth quarter 2007. The majority of interest-bearing demand deposits and savings deposits are assumed to be "core" deposits, or deposits that will generally remain at the Company regardless of market interest rates. Therefore, 13% of the core interest-bearing deposits, 20% of core savings deposits and 35% of money market deposit accounts are shown as maturing or repricing within three months. The remainder is divided between the "after 1 but within 5 years" column and the "after 5 years" column. Interest-bearing transaction accounts held by states and municipalities are seen to be more sensitive than personal interest-bearing transaction accounts. Therefore, 75% of public interest-bearing transaction accounts are shown as repricing within three months.

The table does not necessarily indicate the impact of general interest rate movements on the Company's net interest income because the repricing of certain categories of assets and liabilities, for example, prepayments of loans and withdrawal of deposits, is beyond the Company's control. As a result, certain assets and liabilities indicated as repricing within a stated period may in fact reprice at different times and at different rate levels.

	Maturing or Repricing				
December 31, 2007	Within three months	After three months but within one year	After one but within five years	After five years	Total
			(dollars in thousands)		
Interest-earning assets:					
Loans	$ 313,082	$ 213,395	$ 933,548	$ 426,510	$1,886,535
Investment securities	58,749	74,948	186,234	82,676	402,607
Interest-bearing cash accounts	10,351	—	—	—	10,351
Total interest-earning assets	382,182	288,343	1,119,782	509,186	2,299,493
Interest-bearing liabilities:					
Deposits:					
Interest-bearing demand	304,536	—	302,410	166,590	773,536
Savings accounts	63,534	—	112,949	141,186	317,669
Time deposits	187,015	342,010	74,021	1,125	604,171
Total interest-bearing deposits	555,085	342,010	489,380	308,901	1,695,376
Borrowings:					
Fed funds purchased and securities sold under agreements to repurchase	49,294	—	—	—	49,294
Long-term debt	10,405	20,450	110,900	30,000	171,755
Subordinated debentures	—	20,619	30,929	25,774	77,322
Total borrowings	59,699	41,069	141,829	55,774	298,371
Total interest-bearing liabilities	614,784	383,079	631,209	364,675	1,993,747
Interest rate sensitivity gap	$ (232,602)	$ (94,736)	$ 488,573	$ 144,511	$ 305,746
Cumulative rate sensitivity gap	$ (232,602)	$ (327,338)	$ 161,235	$ 305,746	

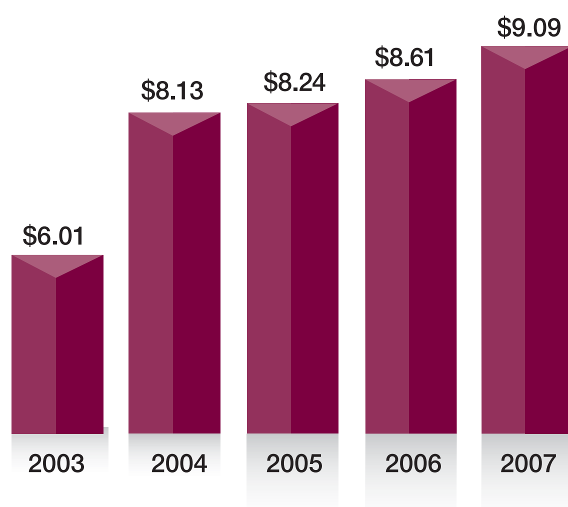
Changes in estimates and assumptions made for interest rate sensitivity modeling and gap analysis could have a significant impact on projected results and conclusions. Therefore, these techniques may not accurately reflect the impact of general interest rate movements on the Company's net interest income or net portfolio value.

Because of the limitations in the gap analysis discussed above, members of the Company's Asset/Liability Committee believe that the interest sensitivity modeling more accurately reflects the effects and exposure to changes in interest 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.

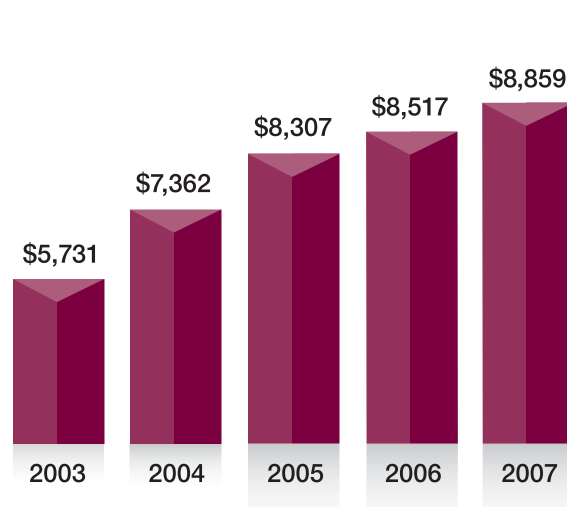
The starting point (or "base case") for the following table is an estimate of the Company's net portfolio value at December 31, 2007 using current discount rates, and an estimate of net interest income for 2008 assuming that both interest rates and the Company's interest-sensitive assets and liabilities remain at December 31, 2007 levels. The information provided for the net portfolio value assumes fluctuations or "rate shocks" of plus 200 basis points and minus 200 basis points. Rate shocks assume that current interest rates change immediately. The information provided for net interest income for 2008 assumes that changes in interest rates of plus 200 basis points and minus 200 basis points change gradually in equal increments over the twelve month period. The information set forth in the following table is based on significant estimates and assumptions, and constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995.

Rate Scenario	Net Portfolio Value of Equity at December 31, 2007		Net Interest Income for 2008	
	Amount	Percent Change From Base Case	Amount	Percent Change From Base Case
	(dollars in thousands)			
+200 basis points	$ 246,221	(13.1)%	$ 77,113	(4.0)%
Base Case	283,280	—%	80,301	—%
-200 basis points	292,227	3.1%	83,101	3.5%

Book Value per Share



Dividends Paid ($000)



CAPITAL RESOURCES

Stockholders' equity increased $12.1 million from $199.5 million at December 31, 2006 to $211.6 million at December 31, 2007, reflecting net income during the year of $18.0 million, cash dividends to stockholders of $8.4 million, other comprehensive income of $1.2 million, and a net change from the exercise of stock options of $511,000. Also contributing to this increase in stockholders' equity was a cumulative adjustment for adoption of FIN48, "Accounting for Uncertainty in Income Taxes," of $509,000. For more information, please see Note 9 in the Notes to the Consolidated Financial Statements.

Book value per share (total stockholders' equity divided by the number of shares outstanding) increased from $8.61 on December 31, 2006 to $9.09 on December 31, 2007 as a result of increased income. Book value per share was $8.24 on December 31, 2005.

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, 2007 and 2006:

	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,	
Capital Ratios:	**2007**	2006	**2007**	2006	**2007**	2006
The Company	**8.11%**	7.51%	**10.08%**	10.13%	**11.08%**	10.96%
Lakeland Bank	**7.62%**	6.85%	**9.49%**	9.24%	**10.28%**	10.07%
"Well capitalized" institution under FDIC Regulations	**5.00%**	5.00%	**6.00%**	6.00%	**10.00%**	10.00%

The Company improved its capital ratios by the issuance of $20.6 million in subordinated debentures. For more information, see Note 6 to the Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Company is currently evaluating the impact the adoption of SFAS No. 157 will have on its consolidated financial statements.

In September 2006, the Financial Accounting Standards Board ratified a consensus opinion reached by the Emerging Issues Task Force on Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," ("EITF 06-4") which requires employers that enter into endorsement split-dollar life insurance arrangements that provide an employee with a postretirement benefit to recognize a liability for the future benefits promised based on the substantive agreement made with the employee. Whether the accrual is based on a death benefit or on the future cost of maintaining the insurance would depend on what the employer has effectively agreed to provide during the employee's retirement. The purchase of an endorsement-type life insurance policy does not qualify as a settlement of the liability.

The consensus in EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company intends to adopt EITF 06-4 effective January 1, 2008. The Company expects that upon implementation it will have a reduction to retained earnings of approximately $546,000.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 but earlier adoption is permitted provided the entity also elects to apply the provisions of SFAS No. 157 during the same time period. The Company is currently evaluating the impact the adoption of SFAS No. 159 will have on its consolidated financial statements. The Company did not elect early adoption of SFAS No. 159.

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.

MARKET PRICE AND DIVIDEND DATA

Shares of the common stock of Lakeland Bancorp, Inc. are traded under the symbol "LBAI" on the NASDAQ Global Select Market. As of December 31, 2007, there were 3,723 shareholders of record of common stock. The following table sets forth the range of the high and low daily closing prices of the common stock as provided by NASDAQ and dividends declared during the periods presented. Prices and dividends have been adjusted to reflect the 5% stock dividends paid on November 16, 2007 and August 16, 2006.

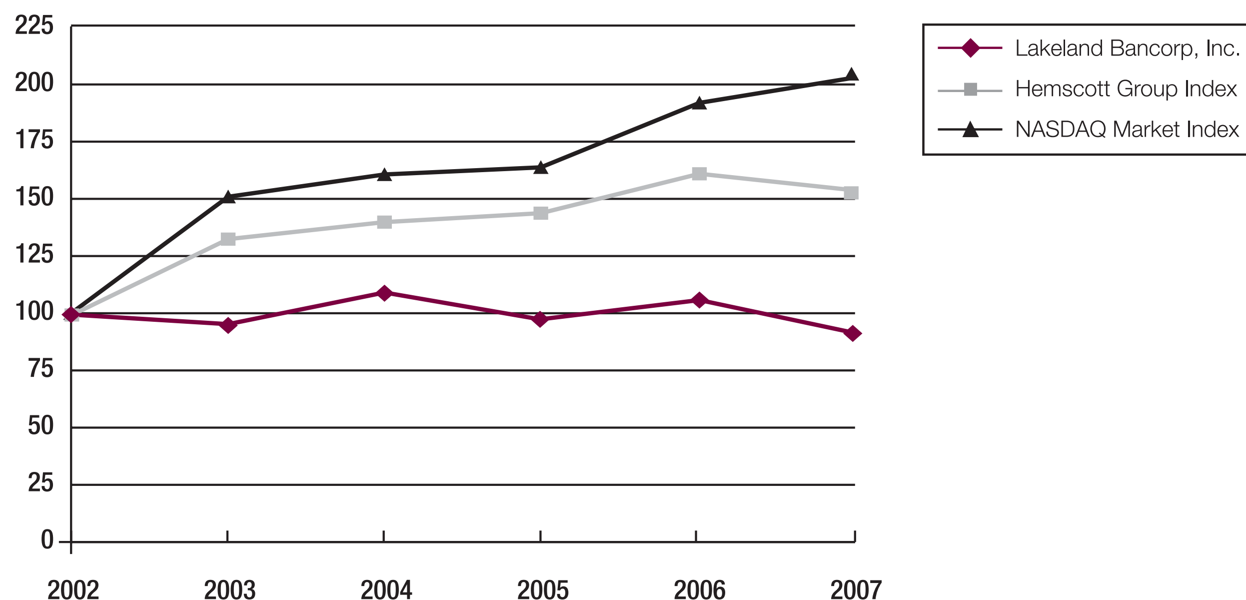
Year Ended December 31, 2007	High	Low	Dividends Declared
First Quarter	**$ 14.71**	**$ 12.48**	**$ 0.095**
Second Quarter	**13.48**	**12.34**	**0.095**
Third Quarter	**13.42**	**9.97**	**0.095**
Fourth Quarter	**13.97**	**11.15**	**0.095**

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

PERFORMANCE GRAPH

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

Comparison 5-year Cumulative Total Return Among Lakeland Bancorp, Inc., NASDAQ Market Index and Hemscott Group Index



Assumes $100 invested on January 1, 2003.
Assumes dividend reinvested.
Fiscal year ending December 31, 2007.

	Fiscal Year Ending					
Company/Index/Market	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007
Lakeland Bancorp	100.00	96.46	108.28	97.75	106.98	90.14
Hemscott Group Index	100.00	130.85	142.14	143.90	164.64	154.64
NASDAQ Market Index	100.00	150.36	163.00	166.58	183.68	201.91

Consolidated Balance Sheets

December 31,	2007	2006
	(dollars in thousands)	
ASSETS		
Cash	$ 46,837	$ 47,888
Interest-bearing deposits due from banks	10,351	32,076
Total cash and cash equivalents	57,188	79,964
Investment securities available for sale	273,247	280,509
Investment securities held to maturity; fair value of $129,207 in 2007 and $140,564 in 2006	129,360	142,838
Loans, net of deferred fees	1,886,535	1,591,644
Less: allowance for loan and lease losses	14,689	13,454
Net loans	1,871,846	1,578,190
Premises and equipment — net	30,093	32,072
Accrued interest receivable	8,579	8,509
Goodwill	87,111	87,111
Other identifiable intangible assets	3,763	4,942
Bank owned life insurance	38,112	36,774
Other assets	14,472	12,664
TOTAL ASSETS	$ 2,513,771	$ 2,263,573
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 292,029	$ 303,558
Savings and interest-bearing transaction accounts	1,091,205	1,054,190
Time deposits under $100 thousand	364,477	293,308
Time deposits $100 thousand and over	239,694	209,571
Total deposits	1,987,405	1,860,627
Federal funds purchased and securities sold under agreements to repurchase	49,294	41,061
Long-term debt	171,755	91,710
Subordinated debentures	77,322	56,703
Other liabilities	16,396	13,972
TOTAL LIABILITIES	2,302,172	2,064,073
Commitments and contingencies		
Stockholders' equity:		
Common stock, no par value; authorized shares, 40,000,000; issued shares, 24,740,564 at December 31, 2007 and 24,741,636 at December 31, 2006; outstanding shares, 23,281,015 at December 31, 2007 and 23,160,188 at December 31, 2006	258,037	242,661
Accumulated Deficit	(24,465)	(17,526)
Treasury stock, at cost, 1,459,549 shares in 2007 and 1,581,448 in 2006	(20,140)	(22,565)
Accumulated other comprehensive loss	(1,833)	(3,070)
TOTAL STOCKHOLDERS' EQUITY	211,599	199,500
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,513,771	$ 2,263,573

See accompanying notes to consolidated financial statements.

Consolidated Income Statements

Years Ended December 31,	2007	2006	2005
		(in thousands, except per share data)	
INTEREST INCOME			
Loans and fees	$ 117,039	$ 94,909	$ 76,388
Federal funds sold and interest-bearing deposits with banks	1,644	1,060	764
Taxable investment securities	14,669	20,115	23,027
Tax-exempt investment securities	3,026	3,724	3,660
TOTAL INTEREST INCOME	136,378	119,808	103,839
INTEREST EXPENSE			
Deposits	52,274	41,546	24,832
Federal funds purchased and securities sold under agreements to repurchase	2,303	4,297	3,026
Long-term debt	10,073	7,261	5,774
TOTAL INTEREST EXPENSE	64,650	53,104	33,632
NET INTEREST INCOME	71,728	66,704	70,207
Provision for loan and lease losses	5,976	1,726	1,555
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	65,752	64,978	68,652
NONINTEREST INCOME			
Service charges on deposit accounts	10,630	10,792	9,633
Commissions and fees	3,096	3,595	3,074
Gains (losses) on the sales of investment securities	1,769	(2,995)	(583)
Income on bank owned life insurance	1,305	1,237	1,210
Other income	1,827	1,551	1,211
TOTAL NONINTEREST INCOME	18,627	14,180	14,545
NONINTEREST EXPENSE			
Salaries and employee benefits	32,864	30,839	28,511
Net occupancy expense	5,877	5,386	5,416
Furniture and equipment	4,856	4,657	4,453
Stationery, supplies and postage	1,627	1,631	1,806
Marketing expense	1,825	1,573	1,625
Core deposit intangible amortization	1,180	1,196	1,212
Other expenses	9,961	9,439	10,369
TOTAL NONINTEREST EXPENSE	58,190	54,721	53,392
Income before provision for income taxes	26,189	24,437	29,805
Provision for income taxes	8,201	7,460	9,584
NET INCOME	$ 17,988	$ 16,977	$ 20,221
PER SHARE OF COMMON STOCK:			
Basic earnings	$ 0.78	$ 0.73	$ 0.86
Diluted earnings	$ 0.77	$ 0.73	$ 0.85
Cash dividends	$ 0.38	$ 0.37	$ 0.35

Consolidated Statements of Comprehensive Income

Years Ended December 31,	2007	2006	2005
		(in thousands)	
NET INCOME	$ 17,988	$ 16,977	$ 20,221
OTHER COMPREHENSIVE INCOME NET OF TAX:			
Unrealized securities gains (losses) arising during period	2,401	247	(5,587)
Less: reclassification for gains (losses) included in net income	1,203	(2,073)	(396)
Change in pension liabilities, net	39	(345)	—
Other Comprehensive Income (Loss)	1,237	1,975	(5,191)
TOTAL COMPREHENSIVE INCOME	$ 19,225	$ 18,952	$ 15,030

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2007, 2006 and 2005

	Common Stock				Accumulated Other Comprehensive	
	Number of Shares	Amount	Accumulated Deficit	Treasury Stock	Income (Loss)	Total
			(dollars in thousands)			
BALANCE DECEMBER 31, 2004	21,374,570	$ 208,933	$ (3,847)	$ (10,878)	$ 340	$ 194,548
Net Income 2005	—	—	20,221	—	—	20,221
Other comprehensive loss, net of tax	—	—	—	—	(5,191)	(5,191)
Exercise of stock options	—	(192)	—	800	—	608
Stock dividend	1,067,767	17,581	(17,581)	—	—	—
Cash dividends	—	—	(8,307)	—	—	(8,307)
Purchase of treasury stock	—	—	—	(10,098)	—	(10,098)
BALANCE DECEMBER 31, 2005	22,442,337	226,322	(9,514)	(20,176)	(4,851)	191,781
Net Income 2006	—	—	16,977	—	—	16,977
Other comprehensive income, net of tax and reclassification adjustments	—	—	—	—	1,975	1,975
Adjustments to initially adopt SFAS No. 158:						
Prior service cost (net of tax benefit)	—	—	—	—	(56)	(56)
Net gains (losses) (net of tax benefit)	—	—	—	—	(138)	(138)
Exercise of stock options	—	(133)	—	755		622
Stock dividend	1,121,126	16,472	(16,472)	—	—	—
Cash dividends	—	—	(8,517)	—	—	(8,517)
Purchase of treasury stock	—	—	—	(3,144)	—	(3,144)
BALANCE DECEMBER 31, 2006	**23,563,463**	**242,661**	**(17,526)**	**(22,565)**	**(3,070)**	**199,500**
Cumulative adjustment for adoption for FIN 48	—	—	509	—	—	509
BALANCE JANUARY 1, 2007, as revised	**23,563,463**	**242,661**	**(17,017)**	**(22,565)**	**(3,070)**	**200,009**
Net Income 2007	—	—	**17,988**	—	—	**17,988**
Other comprehensive income, net of tax and reclassification adjustments	—	—	—	—	**1,237**	**1,237**
Stock based compensation	—	**260**	—	—	—	**260**
Issuance of stock for restricted stock awards	—	**(966)**	—	**966**	—	—
Issuance of stock to dividend reinvestment plan	—	**(94)**	**(464)**	**558**	—	—
Exercise of stock options, net of excess tax benefits	—	**(401)**	—	**912**	—	**511**
Repurchase of stock in recission offer	—	—	—	**(11)**	—	**(11)**
Stock dividend	**1,177,101**	**16,577**	**(16,577)**	—	—	—
Cash dividends	—	—	**(8,395)**	—	—	**(8,395)**
BALANCE DECEMBER 31, 2007	**24,740,564**	**$ 258,037**	**$ (24,465)**	**$ (20,140)**	**$ (1,833)**	**$ 211,599**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31,	**2007**	2006	2005
		(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 17,988**	$ 16,977	$ 20,221
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premiums, discounts and deferred loan fees and costs	**1,000**	594	1,281
Depreciation and amortization	**3,614**	3,512	3,532
Amortization of intangible assets	**1,180**	1,196	1,212
Provision for loan and lease losses	**5,976**	1,726	1,555
Share based compensation	**260**	—	—
(Gains) losses on sales of securities	**(1,769)**	2,995	583
Gain on sale of branch	**(319)**	(361)	—
Deferred income tax (benefit)	**(2,173)**	(740)	1,524
Increase in other assets	**(1,784)**	(641)	(1,851)
Increase in other liabilities	**2,993**	2,084	1,428
NET CASH PROVIDED BY OPERATING ACTIVITIES	**26,966**	27,342	29,485
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from repayments on and maturity of securities:			
Available for sale	**58,405**	86,977	122,326
Held to maturity	**28,098**	29,910	32,326
Proceeds from sales of securities:			
Available for sale	**2,438**	178,124	80,380
Held to maturity	**—**	—	715
Purchase of securities:			
Available for sale	**(50,152)**	(29,908)	(146,359)
Held to maturity	**(14,841)**	(18,378)	(25,058)
Net increase in loans	**(300,153)**	(280,137)	(141,340)
Proceeds from sale of branch, net	**—**	(7,326)	—
Proceeds from dispositions of premises and equipment	**995**	51	135
Capital expenditures	**(2,312)**	(3,400)	(4,345)
Net decrease in other real estate owned	**—**	—	650
NET CASH USED IN INVESTING ACTIVITIES	**(277,522)**	(44,087)	(80,570)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	**126,778**	70,459	71,356
Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	**8,233**	(62,138)	(7,631)
Proceeds from long-term debt	**120,900**	50,000	10,000
Repayments of long-term debt	**(40,855)**	(3,351)	(7,227)
Proceeds from issuance of subordinated debentures	**20,619**	—	—
Purchase of treasury stock	**(11)**	(3,144)	(10,098)
Exercise of stock options	**408**	519	461
Excess tax benefits	**103**	66	—
Dividends paid	**(8,395)**	(8,517)	(8,307)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**227,780**	43,894	48,554
Net increase (decrease) in cash and cash equivalents	**(22,776)**	27,149	(2,531)
Cash and cash equivalents, beginning of year	**79,964**	52,815	55,346
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 57,188**	$ 79,964	$ 52,815

See accompanying 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). The Newton Trust Company (Newton), was merged into Lakeland on November 4, 2005 and Community State Bank (CSB) was merged into Lakeland on August 25, 2003. 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 a leasing 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.

Basis of Financial Statement Presentation

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

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

The principal estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan and lease losses, the Company's deferred tax asset and the analysis of goodwill impairment.

The evaluation of the adequacy of the allowance for loan and lease losses includes, among other factors, an analysis of historical loss rates, by category, applied to current loan totals. However, actual losses may be higher or lower than historical trends, which vary. Actual losses on specified problem loans, which also are provided for in the evaluation, may vary from estimated loss percentages, which are established based upon a limited number of potential loss classifications.

The Company provides disclosures under Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information." Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance.

The Company has one operating segment and accordingly one reportable segment, "Community Banking." 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. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment or unit.

Investment Securities

The Company accounts for its investment securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Investments in securities are classified in one of three categories: held to maturity, trading, or available for sale. Investments in debt and equity 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 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 security 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.

In November 2005, FASB Staff Position 115-1 and 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (FSP 115-1) was issued. FSP 115-1 replaced the guidance in paragraphs 10–18 of EITF Issue 03-1 with references to existing other-than-temporary impairment guidance, such as SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," Staff Accounting Bulletin 59, "Accounting for Noncurrent Marketable Equity Securities," and APB Opinion 18, "The Equity Method of Accounting for Investments in Common Stock." FSP 115-1 codified the guidance set forth in EITF Topic D-44 and clarified that an investor should recognize an impairment loss no later than when the impairment is considered other-than-temporary, even if a decision to sell has not been made. FSP 115-1 also includes language from EITF Issue 03-1 regarding the accounting for debt securities subsequent to an other-than-temporary impairment.

The Company has evaluated its investments under FSP 115-1. Because it has concluded that none of its securities have impairments that are other-than-temporary, the impact of these pronouncements have not had a material impact on the Company's financial statements.

Loans and Allowance for Loan and Lease Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal and are net of unearned discount, unearned loan fees and an allowance for loan 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 that may become uncollectible based upon an evaluation of known and inherent risks in the loan portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan portfolio, overall portfolio quality, specific problem loans, and current economic conditions which may affect the borrowers' ability to pay. The evaluation also details historical losses by loan category, the resulting loss rates for which are projected at current loan total amounts. Loss estimates for specified problem loans are also detailed.

Interest income is accrued as earned on a simple interest basis. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. When a loan is placed on such non-accrual status, all accumulated accrued interest receivable is reversed out of current period income. Commercial loans 90 days or more past due and still accruing interest must have both principal and accruing interest adequately secured and must be in the process of collection. Residential mortgage loans are placed on non-accrual status at the time when foreclosure proceedings are commenced 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 charged 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.

Impairment of loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, Lakeland 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.

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

Other real estate owned (OREO), representing property acquired through foreclosure, is carried at the lower of the principal balance of the secured loan or fair value less estimated disposal costs of the acquired property. Costs relating to holding the assets are charged to expense. An allowance for OREO has been established, through charges to OREO expense, to maintain properties at the lower of cost or fair value less estimated costs to sell. Operating results of OREO, including rental income, operating expenses and gains and losses realized from the sale of properties owned, are included in other expenses.

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, 2007 and 2006, Lakeland was servicing approximately $15.6 million and $15.4 million, respectively, of loans for others.

The Company accounts for its transfers and servicing of financial assets in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" as amended by SFAS No. 156. 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 in accordance with SFAS No. 156 as discussed below. The Company records

mortgage servicing rights and the loans based on relative fair values at the date of origination.

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 also accounted for in accordance with SFAS No. 134, “Accounting for Mortgage Securities Retained after the Securitizations of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise.” This statement 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.

In March 2006, the FASB issued SFAS No 156, “Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140.” (SFAS No. 156). This statement amends SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” with respect to the accounting for separately recognized servicing assets and servicing liabilities. Among other requirements, SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations. SFAS No. 156 is effective for a company’s first fiscal year beginning after September 15, 2006. The Company adopted SFAS No. 156 effective January 1, 2007. The adoption of this statement did not have a material impact on the Company’s financial position or results 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 and cash balances at December 31, 2007 and 2006 were approximately $3.3 million and $2.6 million, respectively.

Earnings Per Share

The Company follows the provisions of SFAS No. 128, “Earnings Per Share,” which requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. 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.

The Company adopted SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Post Retirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R),” as of December 31, 2006. This statement requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under SFAS No. 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in Accumulated Other Comprehensive Income, net of tax effects, until they are amortized as a component of net periodic benefit cost. The Company adopted SFAS No. 158 on December 31, 2006 for the Director’s Retirement Plan and recorded a liability of $299,000, a deferred tax asset of $105,000 and an other comprehensive loss of $194,000 upon adoption. As an additional provision of SFAS No. 158, the measurement date, the date at which plan assets and benefit obligations are measured, must be a company’s fiscal year end as of December 31, 2008.

Stock-Based Compensation

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 2,257,369 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. The Company's stock-based employee compensation plans are more fully described in Note 13.

Prior to 2006, the Company followed the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 permitted entities to account for employee stock options and similar equity instruments under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued for Employees." Under SFAS No. 123, entities were required to make pro forma disclosures of net income and earnings per share, as if the fair-value based method of accounting defined in SFAS No. 123 had been applied.

On May 13, 2005, the Company accelerated the vesting of 508,002 stock options, representing all unvested stock options on such date which had exercise prices in excess of the market value of the Company's common stock on May 13, 2005. The Company's decision to accelerate the vesting of these options was part of a review by the Board of Directors of the Company's incentive compensation program and upcoming changes in the accounting for stock options. Compensation expense that would have been recorded absent the accelerated vesting was approximately $2.1 million net of taxes, $455,000 of which would have been recorded in 2007. In December 2005, the Company granted options to purchase 172,523 shares of common stock to key employees at an exercise price of $14.23 per share. These options vested immediately. Compensation expense that would have been recorded net of taxes was approximately $774,000.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition method to stock-based employee compensation.

Years Ended December 31,	2005
	(in thousands, except per share amounts)
Net income, as reported	$20,221
Deduct: Stock-based compensation costs determined under fair value based method for all awards	2,888
Pro forma net income	$17,333
Earnings per share:	
Basic, as reported	$ 0.86
Basic, pro forma	$ 0.73
Diluted, as reported	$ 0.85
Diluted, pro forma	$ 0.72

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. Cash paid for income taxes was $8.5 million, $10.6 million and $7.8 million in 2007, 2006 and 2005, respectively. Cash paid for interest was $64.7 million, $51.9 million and $32.6 million in 2007, 2006 and 2005, respectively.

Comprehensive Income

The Company follows the disclosure provisions of SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income.

	Year Ended December 31, 2007		
	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	$ 3,687	($ 1,286)	$ 2,401
Less reclassification adjustment for net gains realized in net income	1,769	(566)	1,203
Net unrealized gains on available for sale securities	1,918	(720)	1,198
Change in pension liabilities	60	(21)	39
Other comprehensive income, net	$ 1,978	($ 741)	$ 1,237

	Year Ended December 31, 2006		
	Before tax amount	Tax benefit (expense)	Net of tax amount
	(dollars in thousands)		
Unrealized holding gains arising during period	$ 378	($ 131)	$ 247
Less reclassification adjustment for net losses realized in net income	(2,995)	922	(2,073)
Net unrealized gains on available for sale securities	$ 3,373	($ 1,053)	2,320
Change in pension liabilities	(530)	185	(345)
Other comprehensive income, net	$ 2,843	(868)	1,975

	Year Ended December 31, 2005		
	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	($ 8,503)	$ 2,916	($ 5,587)
Less reclassification adjustment for net losses realized in net income	(583)	187	(396)
Other comprehensive loss, net	($ 7,920)	$ 2,729	($ 5,191)

Goodwill and Other Identifiable Intangible Assets

The Company accounts for goodwill and other identifiable intangible assets in accordance with SFAS No. 142, "Goodwill and Intangible Assets." The Company tests goodwill for impairment annually at the reporting unit level using various market valuation methodologies. The Company has tested the goodwill and other identifiable intangible assets as of December 31, 2007 and has determined that they are not impaired.

Goodwill and core deposit intangible resulting from the Newton and CSB acquisitions totaled $84.9 million and $7.9 million, respectively, and is included in goodwill and other identifiable intangible assets. Total goodwill was $87.1 million at December 31, 2007 and 2006. Core deposit intangible was $3.8 million and $4.9 million at December 31, 2007 and 2006, respectively. Amortization expense of core deposit intangible was $1.2 million for each of the years ended December 31, 2007, 2006 and 2005.

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, 2007 and 2006, Lakeland had $38.1 million and $36.8 million, respectively, in BOLI. Income earned on BOLI was $1.3 million, $1.2 million and $1.2 million for the years ended December 31, 2007, 2006 and 2005, respectively.

In September 2006, the Financial Accounting Standards Board ratified a consensus opinion reached by the Emerging Issues Task Force on Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," ("EITF 06-4") which requires employers that enter into endorsement split-dollar life insurance arrangements that provide an employee with a postretirement benefit to recognize a liability for the future benefits promised based on the substantive agreement made with the employee. Whether the accrual is based on a death benefit or on the future cost of maintaining the insurance would depend on what the employer has effectively agreed to provide during the employee's retirement. The purchase of an endorsement-type life insurance policy does not qualify as a settlement of the liability.

The consensus in EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company intends to adopt EITF 06-4 effective January 1, 2008. The Company expects that upon implementation it will have a reduction to retained earnings of approximately $546,000.

Income Taxes

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

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective January 1, 2007. As a result of this adoption the company recorded a credit to its retained earnings of $509,000. For more information see Note 9 of these Consolidated Financial Statements.

Variable Interest Entities

Management has determined that Lakeland Bancorp Capital Trust I, Lakeland Bancorp Capital Trust II, Lakeland Bancorp Capital Trust III and Lakeland Bancorp Capital Trust IV (collectively, "the Trusts") qualify as variable interest entities under FIN 46. 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 Federal Reserve has issued guidance on the regulatory capital treatment for the trust preferred securities issued by the Trusts as a result of the adoption of FIN 46(R). 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 took effect April 11, 2005; however, a five year transition period starting March 31, 2004 and leading up to March 31, 2009 allows bank holding companies to continue to count trust preferred securities as Tier 1 Capital after applying FIN 46(R). Management will continue to evaluate the effects of this rule through the transition period.

New Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Company is currently evaluating the impact the adoption of SFAS No. 157 will have on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 but earlier adoption is permitted provided the entity also elects to apply the provisions of SFAS No. 157 during the same time period. The Company is currently evaluating the impact the adoption of SFAS No. 159 will have on its consolidated financial statements. The Company did not elect early adoption of SFAS No. 159.

Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the 2007 presentation.

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:

AVAILABLE FOR SALE	December 31, 2007				December 31, 2006			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)				(in thousands)			
U.S. government agencies	**$ 48,314**	**$ 289**	**$ (151)**	**$ 48,452**	$ 43,346	$ —	$ (967)	$ 42,379
Mortgage-backed securities	**161,520**	**307**	**(1,761)**	**160,066**	179,734	7	(5,365)	174,376
Obligations of states and political subdivisions	**25,550**	**199**	**(38)**	**25,711**	29,183	166	(139)	29,210
Other debt securities	**17,124**	**—**	**(1,523)**	**15,601**	13,128	35	(644)	12,519
Equity securities	**22,856**	**921**	**(360)**	**23,417**	19,153	3,007	(135)	22,025
	$ 275,364	**$ 1,716**	**$ (3,833)**	**$ 273,247**	$ 284,544	$ 3,215	$ (7,250)	$280,509

HELD TO MATURITY	December 31, 2007				December 31, 2006			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)				(in thousands)			
U.S. government agencies	**$ 31,493**	**$ 151**	**$ (13)**	**$ 31,631**	$ 39,256	$ —	$ (808)	$ 38,448
Mortgage-backed securities	**40,849**	**73**	**(338)**	**40,584**	44,993	7	(1,008)	43,992
Obligations of states and political subdivisions	**55,421**	**200**	**(158)**	**55,463**	56,983	125	(550)	56,558
Other debt securities	**1,597**	**—**	**(68)**	**1,529**	1,606	—	(40)	1,566
	$ 129,360	**$ 424**	**$ (577)**	**$ 129,207**	$ 142,838	$ 132	$ (2,406)	$140,564

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, 2007			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$ 8,008	$ 8,041	$ 19,217	$ 19,193
Due after one year through five years	50,946	51,043	38,609	38,729
Due after five years through ten years	24,982	23,781	26,328	26,371
Due after ten years	7,052	6,899	4,357	4,330
	90,988	89,764	88,511	88,623
Mortgage-backed securities	161,520	160,066	40,849	40,584
Equity securities	22,856	23,417	—	—
Total securities	$ 275,364	$ 273,247	$ 129,360	$ 129,207

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

	Years Ended December 31,		
	2007	2006	2005
	(in thousands)		
Sale proceeds	**$ 2,438**	$ 178,124	$ 81,095
Gross gains	**1,769**	1,204	343
Gross losses	**—**	(4,199)	(926)

In 2005, the Company sold approximately $715,000 in investment securities classified as held to maturity for a gain of $23,000 because over 85% of the original principal acquired on these securities had been paid by the sale date.

Securities with a carrying value of approximately $282.0 million and $332.8 million at December 31, 2007 and 2006, respectively, were pledged to secure public deposits and for other purposes required by applicable laws and regulations.

The following table indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2007 and 2006:

December 31, 2007	Less than 12 months		12 months or longer			Total	
AVAILABLE FOR SALE	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
				(dollars in thousands)			
U.S. government agencies	$ 4,988	$ 8	$ 23,848	$ 143	8	$ 28,836	$ 151
Mortgage-backed securities	15,570	74	112,344	1,686	86	127,914	1,760
Obligations of states and political subdivisions	474	2	4,931	36	11	5,405	38
Other debt securities	6,389	86	9,212	1,437	8	15,601	1,523
Equity securities	782	130	8,543	231	6	9,325	361
	$ 28,203	$ 300	$ 158,878	$ 3,533	119	$ 187,081	$ 3,833

HELD TO MATURITY							
U.S. government agencies	$ —	$ —	$ 7,739	$ 13	5	$ 7,739	$ 13
Mortgage-backed securities	4,836	15	28,402	323	24	33,238	338
Obligations of states and political subdivisions	10,920	44	14,370	114	62	25,290	158
Other debt securities	542	1	986	67	3	1,528	68
	$ 16,298	$ 60	$ 51,497	$ 517	94	$ 67,795	$ 577

December 31, 2006	Less than 12 months		12 months or longer			Total	
AVAILABLE FOR SALE	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
				(dollars in thousands)			
U.S. government agencies	$ —	$ —	$ 39,382	$ 967	12	$ 39,382	$ 967
Mortgage-backed securities	17,557	190	152,883	5,175	97	170,440	5,365
Obligations of states and political subdivisions	2,155	18	12,680	121	31	14,835	139
Other debt securities	5,032	22	5,548	622	5	10,580	644
Equity securities	—	—	8,291	135	3	8,291	135
	$ 24,744	$ 230	$ 218,784	$ 7,020	148	$ 243,528	$ 7,250

HELD TO MATURITY							
U.S. government agencies	$ 983	$ 16	$ 37,465	$ 792	16	$ 38,448	$ 808
Mortgage-backed securities	5,508	48	38,090	960	27	43,598	1,008
Obligations of states and political subdivisions	11,181	22	30,729	528	106	41,910	550
Other debt securities	—	—	1,566	40	3	1,566	40
	$ 17,672	$ 86	$ 107,850	$ 2,320	152	$ 125,522	$ 2,406

Management has evaluated the securities in the above table and has concluded that none of these securities has impairments that are other-than-temporary. In its evaluation, management considered the types of securities including if the securities were U.S. government issued, and what the credit rating was on the securities. Most of the securities that are in an unrealized loss position are in a loss position because of changes in interest rates since the securities were purchased. The securities that have been in an unrealized loss position for 12 months or longer include U.S. government agency securities and mortgage backed securities whose market values are sensitive to interest rates. The corporate securities and the obligations of state and political subdivisions listed in the above table all are investment grade securities.

NOTE 3 — LOANS

	December 31,	
	2007	2006
	(in thousands)	
Commercial	**$ 821,621**	$ 714,496
Leases	**355,644**	196,518
Real estate — mortgage	**301,798**	272,102
Real estate — construction	**91,706**	87,562
Home Equity and Consumer	**310,359**	315,038
Total loans	**1,881,128**	1,585,716
Plus deferred costs	**5,407**	5,928
Loans net of deferred fees	**$ 1,886,535**	$1,591,644

The maturities of minimum lease receivables are as follows (in thousands):

Year	
2008	$ 11,687
2009	37,492
2010	76,576
2011	104,143
2012	95,295
2013 and thereafter	30,451
	$ 355,644

Changes in the allowance for loan and lease losses are as follows:

	Years Ended December 31,		
	2007	2006	2005
	(in thousands)		
Balance at beginning of year	**$ 13,454**	$ 13,173	$ 16,638
Provision for loan and lease losses	**5,976**	1,726	1,555
Addition related to acquisition	**—**	—	—
Loans charged off	**(5,367)**	(2,790)	(6,273)
Recoveries	**626**	1,345	1,253
Balance at end of year	**$ 14,689**	$ 13,454	$ 13,173

The balance of impaired loans was $9.8 million and $4.1 million at December 31, 2007 and 2006, respectively. Lakeland identifies a loan as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreements. The allowance for loan and lease losses associated with impaired loans was $2.7 million and $1.4 million at December 31, 2007 and 2006, respectively. The average recorded investment on impaired loans was $7.0 million, $3.7 million and $8.2 million during 2007, 2006 and 2005, respectively, and the income recognized, primarily on the cash basis, on impaired loans was $154,000, $315,000 and $323,000 during 2007, 2006 and 2005, respectively. Interest which would have been accrued on impaired loans during 2007, 2006 and 2005 was $720,000, $299,000 and $661,000, respectively. Lakeland's policy for interest income recognition on impaired loans is to recognize income on restructured loans under the accrual method. Lakeland recognizes income on non-accrual loans under the cash basis when the loans are both current and the collateral on the loan is sufficient to cover the outstanding obligation to Lakeland; if these factors do not exist, Lakeland will not recognize income until all loan principal has been recovered.

Loans past due 90 days or more and still accruing are those loans as to which payment of interest or principal is in arrears for a period of 90 days or more but is adequately collateralized as to interest and principal or is in the process of collection. Non-performing loans consist of non-accrual loans and renegotiated loans. Non-accrual loans are those on which income under the accrual method has been discontinued with subsequent interest payments credited to interest income when received, or if ultimate collectibility of principal is in doubt, applied as principal reductions. Renegotiated loans are loans whose contractual interest rates have been reduced or where other significant modifications have been made due to borrowers' financial difficulties. Interest on these loans is either accrued or credited directly to interest income. Loans past due 90 days or more and non-accrual loans were as follows:

	December 31,		
	2007	2006	2005
	(in thousands)		
Loans past due 90 days or more and still accruing	**$ 667**	$ 876	$ 5,127
Non-accrual loans	**$ 10,159**	$ 4,437	$ 3,907

The impact of the above non-performing loans on interest income is as follows:

	December 31,		
	2007	2006	2005
	(in thousands)		
Interest income if performing in accordance with original terms	**$ 720**	$ 299	$ 661
Interest income actually recorded	**154**	315	323
	$ 566	$ (16)	$ 338

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 as those prevailing for comparable transactions with other borrowers. These loans at December 31, 2007, were current as to principal and interest payments, and do not involve more than normal risk of collectibility. At December 31, 2007, loans to these related parties amounted to $20.0 million. There were new loans of $10.7 million to related parties and repayments of $21.1 million from related parties in 2007.

NOTE 4 — PREMISES AND EQUIPMENT

	Estimated useful lives	December 31, 2007	2006
		(in thousands)	
Land	Indefinite	$ 5,443	$ 5,604
Buildings and building improvements	10 to 50 years	29,155	30,079
Leasehold improvements	10 to 25 years	2,275	1,976
Furniture, fixtures and equipment	2 to 30 years	25,322	23,280
		62,195	60,939
Less accumulated depreciation and amortization		32,102	28,867
		$ 30,093	$ 32,072

NOTE 5 — DEPOSITS

At December 31, 2007, the schedule of maturities of certificates of deposit is as follows (in thousands):

Year	
2008	$ 528,996
2009	69,073
2010	2,633
2011	2,191
2012	153
Thereafter	1,125
	$ 604,171

NOTE 6 — DEBT

Lines of Credit

As of December 31, 2007, the Company had approved lines of credit with the Federal Home Loan Bank (FHLB) of New York of up to $200.0 million. Borrowings under this arrangement have an interest rate that fluctuates based on market conditions and customer demand. As of December 31, 2007, there were no overnight borrowings against these lines. As of December 31, 2007, the Company also had overnight federal funds lines available for it to borrow $169.0 million. The Company had borrowed $7.0 million against these lines as of December 31, 2007.

Securities Sold Under Agreements to Repurchase and Federal Funds Purchased

Borrowed money at December 31, 2007 and 2006 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.

Federal Funds Purchased:	2007	2006	2005
	(dollars in thousands)		
Balance at December 31	$ 7,000	$ —	$ 36,275
Interest rate at December 31	4.00%	—%	4.32%
Maximum amount outstanding at any month-end during the year	$ 60,800	$ 95,150	$ 80,825
Average amount outstanding during the year	$ 8,276	$ 32,614	$ 15,233
Weighted average interest rate during the year	5.28%	5.07%	3.08%

Securities sold under agreements to repurchase:	2007	2006	2005
	(dollars in thousands)		
Balance at December 31	$ 42,294	$ 41,061	$ 66,294
Interest rate at December 31	3.39%	4.19%	3.79%
Maximum amount outstanding at any month-end during the year	$ 54,602	$ 74,336	$111,737
Average amount outstanding during the year	$ 46,431	$ 59,866	$ 80,206
Weighted average interest rate during the year	4.02%	4.42%	3.19%

Long-Term Debt

FHLB Debt

At December 31, 2007, advances from the FHLB totaling $141.8 million will mature within one to ten years and are reported as long-term borrowings. These advances are collateralized by certain securities and first mortgage loans. The advances had a weighted average interest rate of 4.67%.

Outstanding borrowings mature as follows (in thousands):

Year	
2008	$ 30,855
2009	10,000
2010	20,900
2011	10,000
2012	40,000
Thereafter	30,000
	$ 141,755

Long-term Securities Sold Under Agreements to Repurchase

At December 31, 2007, long-term securities sold under agreements to repurchase of $30.0 million have final maturities between seven and 10 years and are reported as long-term borrowings. These securities can be called starting in 2009. These advances are collateralized by certain securities. The advances had a weighted average interest rate of 4.81%. These borrowings have rates that can reset quarterly.

Subordinated Debentures

On May 16, 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 is 6.61% for 5 years and floats at LIBOR plus 152 basis points thereafter. The debentures are the sole asset of the Trust. The Trust issued 20,000 shares of trust preferred securities, $1,000 face value, for total proceeds of $20.0 million. The Company's obligations under the debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the Trust's obligations under the preferred securities. The preferred securities are callable by the Company on or after August 1, 2012, or earlier if the deduction of related interest for federal income taxes is prohibited, treatment as Tier I capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2037.

On December 15, 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 is 7.535% for 10 years and float 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. The preferred securities must be redeemed upon maturity of the debentures in 2034.

On June 18, 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 is 6.20% for 7 years and float 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.

On June 18, 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 is 5.71% for 5 years and float 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 October 16, 2007, the Company's Board of Directors authorized a 5% stock dividend which was distributed on November 16, 2007.

On August 16, 2007, the Company announced a stock repurchase program for the purchase of up to 525,000 shares of the Company's common stock over the next year. The Company has purchased no shares of its common stock under this repurchase program.

On July 12, 2006, the Company announced a stock repurchase program for the purchase of up to 525,000 shares of the Company's common stock over the next year. The Company purchased no shares of its common stock under this repurchase program. This program expired in July 2007.

On July 12, 2006, the Company's Board of Directors authorized a 5% stock dividend which was distributed on August 16, 2006.

On June 10, 2005, the Company announced a stock repurchase program for the purchase of up to 868,218 shares of the Company's common stock over the next year. During 2005, the Company purchased 442,214 shares of its outstanding common stock in the 2005 plan at an average price of $13.77 per share for an aggregate cost of $6.1 million. During 2006, the Company purchased 231,689 shares of its common stock in the 2005 plan at an average price of $13.57 per share for an aggregate cost of $3.1 million. In July 2006, the 2005 plan expired and was replaced by the 2006 plan.

On July 13, 2005, the Company's Board of Directors authorized a 5% stock dividend which was distributed on August 15, 2005.

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 are not currently exercisable or transferable, and no separate certificates evidencing such rights will be distributed, unless certain events occur. The rights have an expiration date of September 4, 2011.

After the rights become exercisable, under certain circumstances, the rights (other than rights held by a 15.0% beneficial owner or an "adverse person") will entitle the holders to purchase the Company's common shares at a substantially reduced price.

The Company is generally entitled to redeem the rights at $0.001 per right at any time before the Rights become exercisable. Rights are not redeemable following an "adverse person" determination.

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,		
	2007	2006	2005
		(in thousands)	
Current tax provision	**$ 10,374**	$ 8,200	$ 8,060
Deferred tax provision (benefit)	**(2,173)**	(740)	1,524
Total provision for income taxes	**$ 8,201**	$ 7,460	$ 9,584

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,		
	2007	2006	2005
		(in thousands)	
Federal income tax, at statutory rates	**$ 9,166**	$ 8,553	$ 10,432
Increase (deduction) in taxes resulting from:			
Non-taxable interest income	**(1,614)**	(1,781)	(1,730)
State income tax, net of federal income tax effect	**591**	704	823
Other, net	**58**	(16)	59
Provision for income taxes	**$ 8,201**	$ 7,460	$ 9,584

The net deferred tax asset consisted of the following:

	December 31,	
	2007	2006
	(in thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	**$ 6,237**	$ 5,736
Valuation reserves for land held for sale and other real estate	**679**	679
Non-accrued interest	**515**	292
Depreciation	**283**	164
Deferred compensation	**1,266**	1,140
Capital loss carryforwards	**541**	—
Unfunded pension benefits	**269**	290
Unrealized loss on securities available for sale	**784**	1,504
Other, net	**285**	6
Deferred tax assets	**10,859**	9,811
Deferred tax liabilities:		
Core deposit intangible from acquired companies	**1,597**	2,030
Deferred loan costs	**1,032**	1,161
Prepaid expenses	**288**	290
Deferred gain on securities	**194**	—
Fair market value adjustments	**115**	131
Other	**566**	563
Deferred tax liabilities	**3,792**	4,175
Net deferred tax assets, included in other assets	**$ 7,067**	$ 5,636

The Company adopted the provisions of FIN 48, on January 1, 2007. At the adoption date, the Company applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of FIN 48, the Company recognized a decrease of approximately $509,000 in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of retained earnings.

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

	2007
	(in thousands)
Balance at January 1, 2007	**$ 902**
Additions based on tax positions related to the current year	**—**
Additions for tax positions of prior years	**225**
Reductions for tax positions resulting from lapse of statute of limitations	**(60)**
Settlements	**$ (113)**
Balance at December 31, 2007	**$ 954**

The amount of unrecognized tax benefits as of December 31, 2007, was $449,000, 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 or state and local examinations by tax authorities for the years before 2003.

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 $169,000 and $158,000 for the payment of interest and penalties at January 1, 2007 and December 31, 2007, respectively.

NOTE 10 — EARNINGS PER SHARE

The Company's calculation of earnings per share in accordance with SFAS No. 128 is as follows:

	Year Ended December 31, 2007		
	Income (numerator)	**Shares (denominator)**	**Per share amount**
	(in thousands, except per share amounts)		
Basic earnings per share			
Net income available to common shareholders	**$ 17,988**	**23,187**	**$ 0.78**
Effect of dilutive securities			
Stock options	**—**	**98**	**(0.01)**
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	**$ 17,988**	**23,285**	**$ 0.77**

Options to purchase 902,205 shares of common stock at a weighted average of $14.11 per share were outstanding during 2007. These options were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price during the period.

	Year Ended December 31, 2006		
	Income (numerator)	Shares (denominator)	Per share amount
	(in thousands, except per share amounts)		
Basic earnings per share Net income available to common shareholders	$ 16,977	23,141	$ 0.73
Effect of dilutive securities Stock options	—	151	(0.00)
Diluted earnings per share Net income available to common shareholders plus assumed conversions	$ 16,977	23,292	$ 0.73

Options to purchase 562,475 shares of common stock and 37,829 shares of restricted stock at a weighted average of $14.66 and $13.95 per share, respectively, were outstanding during 2006. These options and restricted stock were not included in the computation of diluted earnings per share because the option exercise price and the grant-date price were greater than the average market price during the period.

	Year Ended December 31, 2005		
	Income (numerator)	Shares (denominator)	Per share amount
	(in thousands, except per share amounts)		
Basic earnings per share Net income available to common shareholders	$ 20,221	23,637	$ 0.86
Effect of dilutive securities Stock options	—	178	(0.01)
Diluted earnings per share Net income available to common shareholders plus assumed conversions	$ 20,221	23,815	$ 0.85

Options to purchase 574,955 shares of common stock at a weighted average of $14.66 per share were outstanding during 2005. They were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price.

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 $675,000 for 2007, $743,000 for 2006 and $755,000 for 2005.

Salary Continuation Agreements

The National Bank of Sussex County (NBSC) entered into a salary continuation agreement during 1996 with its former Chief Executive Officer 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 Chief Executive Officer and $381,000 for the President. Lakeland 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 Chief Executive Officer (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 as well as certain retiree medical benefits. During 2007, 2006 and 2005, $10,000, $11,000 and $9,000, respectively, was charged to operations related to these obligations.

Retirement Savings Plans (401K 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 40% of the employee's contributions. The Company's contributions in 2007, 2006 and 2005 totaled $397,000, $361,000 and $321,000, respectively.

Pension Plan

Newton had a defined benefit pension plan. As of March 31, 2004, Newton's Board of Directors elected to freeze the benefits of the pension plan. 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 and 40% in debt securities. 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 composition of plan assets at December 31, 2007 was as follows:

Asset Category	
Equity securities	52%
Debt securities	20%
Other securities	28%

The accumulated benefit obligation as of December 31, 2007 and 2006, is as follows:

	2007	2006
	(in thousands)	
Accumulated postretirement benefit obligation	$ 1,576	$ 1,500
Interest Cost	98	95
Actuarial loss	126	286
Estimated benefit payments	(77)	(305)
Total accumulated postretirement benefit obligation	1,723	1,576
Fair value of plan assets beginning of period	1,176	1,360
Return on plan assets	91	121
Benefits paid	(77)	(305)
Contribution	100	0
Fair value of plan assets at end of year	1,290	1,176
Funded status	(433)	(400)
Unrecognized net actuarial loss	0	530
Prepaid benefit	$ (433)	$ 130
Accumulated benefit obligation	$ 1,723	$ 1,576

The components of net periodic pension cost are as follows:

	2007	2006
	(in thousands)	
Amortization of actuarial loss	$ 31	$ 25
Interest cost on APBO	98	95
Expected return on plan assets	(85)	(87)
Net periodic postretirement cost	$ 44	$ 33

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):

2008	$43
2009	46
2010	56
2011	55
2012	56
2013 - 2017	535

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

	2007	2006
Discounted rate	5.75%	6.00%
Expected return on plan assets	7.25%	7.25%
Rate of compensation	0.00%	0.00%

Employee Stock Ownership Plan

NBSC had an Employee Stock Ownership Plan ("ESOP"). No contributions have been made to this plan for the years ended December 31, 2007, 2006 and 2005.

Postretirement Health Care Benefits

In 2000, the Company instituted postretirement health care benefits and life insurance coverage to its employees who meet certain predefined criteria. The expected cost of these benefits is charged to expense during the years that eligible employees render service. In December 2005, the Company terminated this plan recording a curtailment gain of $675,000 and a settlement gain of $197,000.

The components of net periodic postretirement benefit cost are as follows:

	2005
	(in thousands)
Service cost, benefits attributed to employee service during the year	$ 62
Interest cost on APBO	41
Amortization of prior service cost	26
Amortization of transition obligation	6
Amortization of gains	(9)
Net periodic postretirement cost before accounting for settlement and curtailment gain	$ 126
Curtailment gain	(675)
Settlement gain	(197)
Net periodic postretirement benefit cost	($ 746)

Because the Company terminated the postretirement benefit plan, there will be no contribution in 2008.

The discount rate used to determine the Company's APBO was 6.0% for 2005.

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 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, 2007, 2006 and 2005, $0, $12,000 and $25,000, respectively, was charged to operations related to these obligations. As of December 31, 2007 and 2006, the accrued liability for these plans was $181,000 and $190,000, respectively.

Supplemental Executive Retirement Plan

In 2003, the Company entered into a supplemental executive retirement plan (SERP) agreement with its Chief Executive Officer that provides annual retirement benefits of $150,000 a year for a 15 year period when the Chief Executive Officer reaches 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 purchased in 2003. In 2007, 2006 and 2005, the Company expensed $283,000, $355,000 and $331,000, respectively, for this plan.

NOTE 12 — DIRECTORS RETIREMENT PLAN

The Company provides a plan that any director 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,	
	2007	2006
	(in thousands)	
Actuarial present value of benefit obligation		
Vested	**$ 694**	$ 594
Nonvested	**76**	56
Accumulated benefit obligation	**$ 770**	$ 650
Accrued plan cost included in other liabilities	**$1,025**	$ 833
Amount not recognized as component of net postretirement benefit cost		
Recognized in accumulated other comprehensive income		
Net actuarial loss	**$ 161**	$ 86
Unrecognized prior service cost	**—**	213
Amounts not recognized as a component of net postretirement benefit cost	**$ 161**	$ 299

	Years ended December 31,		
	2007	2006	2005
	(in thousands)		
Net periodic plan cost included the following components:			
Service cost	**$ 19**	$ 24	$ 21
Interest cost	**59**	47	48
Amortization of prior service cost	**54**	46	47
	$ 132	**$ 117**	**$ 116**

A discount rate of 5.75% and 6.00% was assumed in the plan valuation for 2007 and 2006, 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):

2008	$ 99
2009	63
2010	80
2011	62
2012	66
2013 - 2017	370

The Company expects its contribution to the director's retirement plan to be $99,000 in 2008.

On December 31, 2006, the Company adopted SFAS No. 158 and recorded a liability of $299,000 to recognize the underfunded status of the Director's Retirement Plan. It also recorded a deferred tax asset of $105,000 and an other comprehensive loss of $194,000.

The amount in accumulated other comprehensive loss expected to be recognized as a component of net periodic benefit cost in 2008 is $40,000.

NOTE 13 — STOCK-BASED COMPENSATION

Employee Stock Option Plans

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 2,257,369 shares of common stock of the Company.

During 2007 the Company granted options to purchase 26,250 shares to a new non-employee director of the Company at an exercise price of $11.43 per share. 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, 2007 and 2006, 261,829 and 285,721 options granted to directors were outstanding, respectively.

During 2005, the Company granted options to purchase 172,523 shares of common stock to key employees at an exercise price of $14.23 per share. These options vested immediately. As of December 31, 2007 and 2006, outstanding options to purchase common stock granted to key employees were 846,331 and 854,325, respectively.

On May 13, 2005, the Company accelerated 508,002 stock options representing all unvested stock options on such date which had exercise prices in excess of the market value of the Company's common stock on that date.

In addition to the 2000 Equity Compensation program, the Company has assumed the outstanding options granted under three employee stock option plans established by High Point (the High Point Plans). As of December 31, 2007 and 2006, 0 and 1,689 options, respectively, were outstanding under the High Point Plans. The Company has also assumed outstanding options granted under Newton Financial Corp.'s 1999 Stock Option Plan (the Newton Plan). As of December 31, 2007 and 2006, 48,080 and 55,894 options, respectively, were outstanding under the Newton Plan.

On December 13, 2006, the Company granted 37,829 shares of restricted stock at a market value of $13.95. On December 12, 2007, the Company granted 28,520 shares of restricted stock at a market value of $11.91. These shares typically vest over a four year period beginning one year after the grant date.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Statement 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. Excess tax benefits of $115,000 and $66,000 for the years 2007 and 2006, respectively, classified as a financing cash inflow would have been classified as an operating cash inflow had the Company not adopted SFAS No. 123(R).

For the years ended December 31, 2007 and 2005, 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:

	2007	2005
Risk-free interest rates	**4.63%**	4.28%
Expected dividend yield	**2.50%**	2.00%
Expected volatility	**25.00%**	30.00%
Expected lives (years)	**6.00**	7.00
Weighted average fair value of options granted	**$ 2.87**	$ 4.29

There were no options granted in 2006.

A summary of the status of the Company's option plans as of December 31, 2007 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	**1,197,630**	**$ 12.44**	—	$ 2,383,000
Issued	**26,250**	**11.43**	—	—
Exercised	**(61,466)**	**6.64**	—	—
Forfeited	**(6,174)**	**14.45**	—	—
Outstanding, end of year	**1,156,240**	**$ 12.71**	5.47	$ 978,000
Options exercisable at year-end	**1,135,240**		5.39	$ 975,000

A summary of the Company's non-vested options under the company's option plans as of December 31, 2007 and changes for the year then ended is presented below.

Non-Vested Options	Shares	Weighted Average Grant-date Fair Value
Non-vested, January 1, 2007	—	
Granted	26,250	
Vested	(5,250)	
Nonvested, December 31, 2007	21,000	$ 2.87

As of December 31, 2007, there was $54,000 of unrecognized compensation expense related to non-vested stock options under the 2000 Equity Compensation Program.

The aggregate intrinsic value of options exercised in 2007, 2006 and 2005 were $348,000, $363,000 and $749,000, respectively. Exercise of stock options during 2007, 2006 and 2005 resulted in cash receipts of $408,000, $519,000 and $624,000, respectively. The total fair value of options that vested in 2007 and 2005 were $15,000 and $3.0 million, respectively. No options vested in 2006.

Information regarding the Company's restricted stock for the year ended December 31, 2007 is as follows:

Restricted Stock	Shares	Weighted Average Price
Outstanding January 1, 2007	37,829	$ 13.95
Granted	28,520	11.91
Vested	(17,135)	13.95
Forfeited	(791)	13.95
Outstanding December 31, 2007	48,423	$ 12.75

The total fair value of the restricted stock vested during the 12 months ended December 31, 2007 was approximately $240,000 which equaled the compensation expense recognized for restricted stock in 2007. There was approximately $617,000 in unrecognized compensation expense related to restricted stock as of December 31, 2007.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

Lease Obligations

Rentals under long-term operating leases amounted to approximately $1,343,000, $1,197,000 and $1,186,000 for the years ended December 31, 2007, 2006 and 2005, respectively, including rent expense to related parties of $205,000, in 2007 and $197,000 in 2006 and 2005. At December 31, 2007, 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 2024 are as follows(in thousands):

Year	
2008	$ 1,446
2009	1,472
2010	1,292
2011	1,109
2012	879
Thereafter	6,732
	$ 12,930

Litigation

As the Company has disclosed in its periodic reports filed with the SEC, the Company was involved in legal proceedings concerning four separate portfolios of predominately commercial leases which Lakeland purchased from Commercial Money Center, Inc. (CMC). CMC obtained surety bonds from three surety companies to guarantee each lessee's performance. Relying on these bonds, Lakeland and other investors purchased the leases and CMC's right to payment under the various surety bonds. CMC (and a related entity, Commercial Servicing Corp. (CSC) eventually stopped forwarding to the Company the required amounts.

On July 20, 2005, Lakeland entered into a settlement agreement with RLI Insurance Company and one remaining party in Lakeland's claims related to the CMC matter. Pursuant to the settlement agreements Lakeland was paid an aggregate of $3,315,000 and the parties executed mutual releases. As a result of the settlements, Lakeland's nonperforming assets were reduced by $6.4 million and no additional loan loss provision was required. A charge-off of $3.0 million was recorded.

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

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

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 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,	
	2007	2006
	(in thousands)	
Financial instruments whose contract amounts represent credit risk		
Commitments to extend credit	**$ 375,807**	$ 385,789
Standby letters of credit and financial guarantees written	**8,647**	9,754

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, 2007 and 2006 varies based on Lakeland's credit evaluation.

The Company has financial and performance letters of credit. Financial letters of credit require the Company to make payment if the customer fails to make payment, as defined in the agreements. Performance letters of credit require the Company to make payments if the customer fails to perform certain non-financial contractual obligations. The Company defines the initial fair value of these letters of credit as the fees received from the customer. The Company 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, 2007 is $8.6 million and they expire through 2009. Lakeland's exposure under these letters of credit would be reduced by actual performance, subsequent termination by the beneficiaries and by any proceeds that the Company obtained in liquidating the collateral for the loans, which varies depending on the customer.

As of December 31, 2007, the Company had $375.8 million in loan commitments, with $302.9 million maturing within one year, $34.5 million maturing after one year but within three years, $1.7 million maturing after three years but within five years, and $36.7 million maturing after five years. As of December 31, 2007, the Company had $8.6 million in standby letters of credit, with $8.2 million maturing within one year and $486,000 maturing after one year but within three 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 — ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107 requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments as defined in SFAS No. 107. However, many such instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Also, it is the Company's general practice and intent to hold its financial instruments to maturity and not to engage in trading or sales activities, except for certain loans. Therefore, the Company had to use significant estimations and present value calculations to prepare this disclosure.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, 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.

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. The estimation methodologies used, the estimated fair values, and recorded book balances at December 31, 2007 and 2006 are outlined below.

For cash and cash equivalents and interest-bearing deposits with banks, the recorded book values approximate fair values. The estimated fair values of investment securities are based on quoted market prices, if available. Estimated fair values are based on quoted market prices of comparable instruments if quoted market prices are not available.

The net loan portfolio at December 31, 2007 and 2006 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.

The estimated fair values of demand deposits (i.e. interest (checking) and non-interest bearing demand accounts, savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). The carrying amounts of variable rate accounts approximate their fair values at the reporting date. For fixed maturity certificates of deposit, fair value was estimated 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 securities sold under agreements to repurchase and long-term debt are based upon discounted value of contractual cash flows. The Company estimates the discount rate using the 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 counter parties. 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 counter parties at the reporting date.

The carrying values and estimated fair values of the Company's financial instruments are as follows:

	December 31,			
	2007		2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Financial Assets:				
Cash and cash equivalents	$ 57,188	$ 57,188	$ 79,964	$ 79,964
Investment securities available for sale	273,247	273,247	280,509	280,509
Investment securities held to maturity	129,360	129,207	142,838	140,564
Loans	1,886,535	1,875,839	1,591,644	1,580,644
Financial Liabilities:				
Deposits	$ 1,987,405	$ 1,988,508	$ 1,860,627	$ 1,858,196
Federal funds purchased and securities sold under agreements to repurchase	49,294	49,294	41,061	41,061
Long-term debt	171,755	175,422	91,710	91,638
Subordinated debentures	77,322	77,322	56,703	51,483
Commitments:				
Standby letters of credit	—	7	—	27

NOTE 17 — 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, or, if not, (2) the payment of such dividend will not reduce the surplus, as defined, of Lakeland. Under these limitations, approximately $172.9 million was available for payment of dividends from Lakeland to the Company as of December 31, 2007.

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, 2007, that the Company and Lakeland met all capital adequacy requirements to which they are subject.

As of December 31, 2007, 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.

As of December 31, 2007 and 2006, 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, 2007						
Total capital						
(to risk-weighted assets)						
Company	**$ 212,741**	**11.08%**	**≥ $ 153,601**	**≥ 8.00%**	**N/A**	**N/A**
Lakeland	**196,766**	**10.28**	**153,073**	**8.00**	**≥ $ 191,341**	**≥ 10.00%**
Tier I capital						
(to risk-weighted assets)						
Company	**$ 193,588**	**10.08%**	**≥ $ 76,801**	**≥ 4.00%**	**N/A**	**N/A**
Lakeland	**181,497**	**9.49**	**76,536**	**4.00**	**≥ $ 114,804**	**≥ 6.00%**
Tier I capital						
(to average assets)						
Company	**$ 193,588**	**8.11%**	**≥ $ 95,494**	**≥ 4.00%**	**N/A**	**N/A**
Lakeland	**181,497**	**7.62**	**95,227**	**4.00**	**≥ $ 119,034**	**≥ 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, 2006						
Total capital						
(to risk-weighted assets)						
Company	$ 178,856	10.96%	≥ $ 130,597	≥ 8.00%	N/A	N/A
Lakeland	163,867	10.07	130,183	8.00	≥ $ 162,729	≥ 10.00%
Tier I capital						
(to risk-weighted assets)						
Company	$ 165,402	10.13%	≥ $ 65,299	≥ 4.00%	N/A	N/A
Lakeland	150,413	9.24	65,092	4.00	≥ $ 97,637	≥ 6.00%
Tier I capital						
(to average assets)						
Company	$ 165,402	7.51%	≥ $ 88,089	≥ 4.00%	N/A	N/A
Lakeland	150,413	6.85	87,866	4.00	≥ $ 109,832	≥ 5.00%

NOTE 18 —
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, 2007	**June 30, 2007**	**September 30, 2007**	**December 31, 2007**
	(in thousands, except per share amounts)			
Total interest income	**$ 32,107**	**$ 32,960**	**$ 35,288**	**$ 36,023**
Total interest expense	**15,018**	**15,415**	**17,095**	**17,122**
Net interest income	**17,089**	**17,545**	**18,193**	**18,901**
Provision for loan and lease losses	**602**	**671**	**789**	**3,914**
Noninterest income	**4,221**	**4,092**	**4,046**	**4,499**
Gains on sales of investment securities	**—**	**1,769**	**—**	**—**
Noninterest expense	**14,327**	**14,435**	**14,332**	**15,096**
Income before taxes	**6,381**	**8,300**	**7,118**	**4,390**
Income taxes	**2,011**	**2,776**	**2,319**	**1,095**
Net income	**$ 4,370**	**$ 5,524**	**$ 4,799**	**$ 3,295**
Earnings per share				
Basic	**$ 0.19**	**$ 0.24**	**$ 0.21**	**$ 0.14**
Diluted	**$ 0.19**	**$ 0.24**	**$ 0.20**	**$ 0.14**

In fourth quarter of 2007, the Company increased its provision for loan and lease losses related to a $3.1 million charge-off of a commercial and industrial loan.

	Quarter Ended			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
	(in thousands, except per share amounts)			
Total interest income	$ 27,953	$ 28,932	$ 30,789	$ 32,134
Total interest expense	11,405	12,211	14,159	15,329
Net interest income	16,548	16,721	16,630	16,805
Provision for loan and lease losses	332	319	337	738
Noninterest income	4,399	4,324	4,301	4,115
Gains (losses) on sales of investment securities	78	—	271	(3,344)
Noninterest expense	13,793	13,417	13,379	14,096
Income before taxes	6,900	7,309	7,486	2,742
Income taxes	2,208	2,254	2,379	619
Net income	$ 4,692	$ 5,055	$ 5,107	$ 2,123
Earnings per share				
Basic	$ 0.20	$ 0.22	$ 0.22	$ 0.09
Diluted	$ 0.20	$ 0.22	$ 0.22	$ 0.09

In fourth quarter of 2006, the Company sold $97.3 million in securities at a loss of $3.3 million and wrote-off $300,000 in costs related to a stock offering which the Company elected not to complete.

NOTE 19 —
CONDENSED FINANCIAL INFORMATION—PARENT COMPANY ONLY:

Condensed Balance Sheets

	December 31, 2007	December 31, 2006
	(in thousands)	
ASSETS		
Cash and due from banks	**$ 8,943**	$ 8,665
Investment securities available for sale	**3,581**	5,802
Investment in bank subsidiaries	**272,051**	238,799
Land held for sale	**1,227**	1,327
Other assets	**4,242**	3,330
TOTAL ASSETS	**$ 290,044**	$ 257,923
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	**$ 1,123**	$ 1,720
Subordinated debentures	**77,322**	56,703
Stockholders' equity	**211,599**	199,500
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 290,044**	$ 257,923

Condensed Statements of Operations

	Years Ended December 31, 2007	2006	2005
		(in thousands)	
INCOME			
Dividends from subsidiaries	**$ 10,600**	$ 20,325	$ 14,850
Other income	**1,971**	420	241
TOTAL INCOME	**12,571**	20,745	15,091
EXPENSE			
Interest on subordinated debentures	**4,714**	3,842	3,842
Noninterest expenses	**1,230**	1,034	724
TOTAL EXPENSE	**5,944**	4,876	4,566
Income before benefit for income taxes	**6,627**	15,869	10,525
Benefit for income taxes	**(994)**	(1,554)	(1,514)
Income before equity in undistributed income of subsidiaries	**7,621**	17,423	12,039
Equity in undistributed income (loss) of subsidiaries	**10,367**	(446)	8,182
NET INCOME	**$ 17,988**	$ 16,977	$ 20,221

Condensed Statements of Cash Flows

	Years Ended December 31,		
	2007	2006	2005
		(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 17,988**	$ 16,977	$ 20,221
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Share based compensation	**260**	—	—
Gain on sale of securities	**(1,762)**	(243)	—
(Increase) decrease in other assets	**(1,431)**	2,668	(1,095)
Increase (decrease) in other liabilities	**119**	(49)	(52)
Equity in undistributed (income) loss of subsidiaries	**(10,367)**	446	(8,182)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**4,807**	19,799	10,892
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of securities	**(788)**	(17)	(118)
Proceeds from sale of securities available for sale	**2,432**	671	—
Contribution to subsidiary	**(19,000)**	(5,000)	—
NET CASH USED IN INVESTING ACTIVITIES	**(17,356)**	(4,346)	(118)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid on common stock	**(8,395)**	(8,517)	(8,307)
Proceeds from issuance of long term debt	**20,619**	—	—
Purchase of treasury stock	**(11)**	(3,144)	(10,098)
Excess tax benefits	**103**	66	—
Exercise of stock options	**511**	519	461
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**12,827**	(11,076)	(17,944)
Net increase (decrease) in cash and cash equivalents	**278**	4,377	(7,170)
Cash and cash equivalents, beginning of year	**8,665**	4,288	11,458
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 8,943**	$ 8,665	$ 4,288

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Lakeland Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Lakeland Bancorp, Inc. (a New Jersey corporation) and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company has adopted Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – An amendment of FASB Statement No. 87, 88, 106 and 132*(R) and FASB No. 123(R) *Share Based Payments* in 2006 and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* in 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lakeland Bancorp, Inc.'s internal control over financial reporting as of December 31, 2007, 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 14, 2008 expressed an unqualified opinion.

Philadelphia, Pennsylvania

March 14, 2008

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Lakeland Bancorp, Inc.

We have audited Lakeland Bancorp, Inc.'s (A New Jersey corporation) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Lakeland Bancorp Inc.'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 Lakeland Bancorp, Inc.'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, Lakeland Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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 balance sheets of Lakeland Bancorp, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 and our report dated March 14, 2008 expressed an unqualified opinion.

Philadelphia, Pennsylvania

March 14, 2008

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.

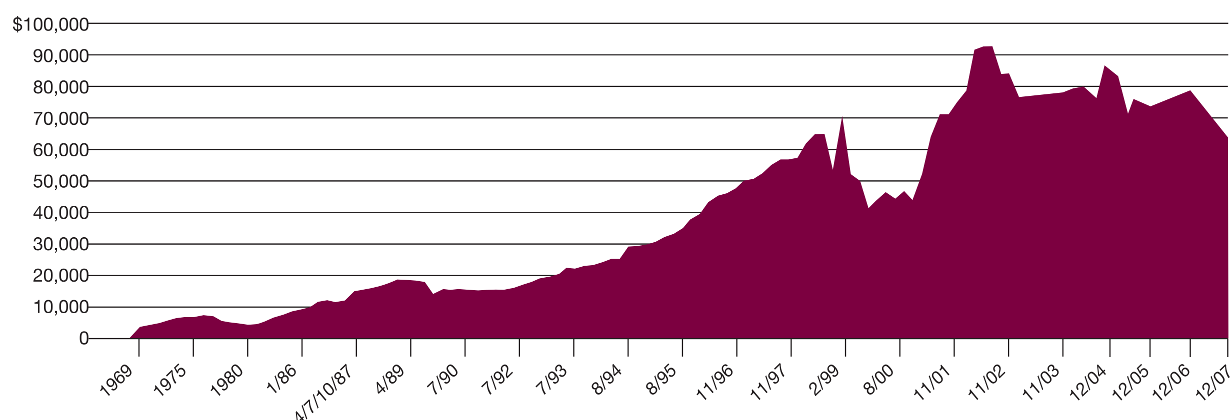
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions or because of declines 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, 2007. 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, 2007, based on management's assessment, the Company's internal control over financial reporting was effective.

Grant Thornton LLP, the Company's independent registered public accounting firm, has issued an audit report on the effectiveness of the Company's internal control over financial reporting. See "Report of Independent Registered Public Accounting Firm" set forth on page 64.

Investment Value of 100 Shares (Adjusted for Stock Dividends)



History of Lakeland Bank and Lakeland Bancorp, Inc. Stock

The Bank opened May 19, 1969, and the Bancorp on May 19, 1989.

The following depicts an investment of $1,000 or 100 shares on May 19, 1969.

	DIVIDENDS						
Dates	Stock	Cash	Price	Fractions	Cash	Total Shares	Value
1969			$ 10.00			100	$ 1,000
1970	2%						
1971	5%		22.00			105	2,310
1972	7%		24.00	0.35	$ 8.40	112	2,688
1973	7%		28.00	0.84	23.52	119	3,332
1974	5%		29.00	0.95	27.55	124	3,596
1975	7%		31.00	0.68	21.08	132	4,092
1976	5%		31.00	0.60	18.60	138	4,278
1977		0.10	31.00		13.80	138	4,278
1978	100%		10.00		0.00	276	2,760
1978		0.10	8.00		27.60	276	2,208
1979		0.20	8.00		55.20	276	2,208
1980		0.30	6.00		82.80	276	1,656
1981		0.40	6.50		110.40	276	1,794
1982		0.60	10.00		165.60	276	2,760
1983		0.80	15.00		220.80	276	4,140
1984		0.92	18.50		253.92	276	5,106
1985		1.00	21.00		276.00	276	5,796
1/86		0.275	25.00		75.90	276	6,900
2/86	5%		25.00	0.80	20.00	289	7,225
4/7/10/86		0.825	31.00		238.43	289	8,959
1987	100%		16.00		0.00	578	9,248
1/87		0.15	15.50		86.70	578	8,959
3/87	5%		15.50	0.90	13.95	606	9,393
4/7/10/87		0.45	20.25		272.70	606	12,272
1/88		0.17	21.00		103.02	606	12,726
3/88	2%		22.00	0.12	2.64	618	13,596
4/7/10/88		0.51	22.00		315.18	618	13,596
1/89		0.175	24.50		108.15	618	15,141
3/89	5%		24.50	0.90	22.05	648	15,876
4/89		0.175	24.50		113.40	648	15,876
7/89		0.175	24.50		113.40	648	15,876
10/89		0.175	23.50		113.40	648	15,228
1/90		0.175	17.50		113.40	648	11,340
3/90	3%		19.00	0.44	8.36	667	12,673
4/90		0.175	19.00		116.73	667	12,673
7/90		0.175	19.00		116.73	667	12,673
10/90		0.175	19.00		116.73	667	12,673
1991		0.70	19.00		466.90	667	12,673
1/92		0.175	19.00		116.73	667	12,673
4/92	3%		19.00	0.01	0.19	687	13,053
5/92		0.175	18.50		120.23	687	12,710
7/92		0.18	19.50		123.66	687	13,397
10/92		0.18	21.00		123.66	687	14,427
12/92	10%		20.00	0.70	14.00	755	15,100
1/93		0.18	21.50		135.90	755	16,233
4/93		0.18	22.50		135.90	755	16,988
6/93	6%		22.50	0.30	6.75	800	18,000
7/93		0.19	24.25		152.00	800	19,400

DIVIDENDS

Dates	Stock	Cash	Price	Fractions	Cash	Total Shares	Value
10/93		0.19	24.25		152.00	800	19,400
1/94		0.21	26.00		168.00	800	20,800
4/94		0.21	26.00		168.00	800	20,800
6/94	10%		24.50		0.00	880	21,560
7/94			25.50		0.00	880	22,440
8/94		0.21	26.00		184.80	880	22,880
10/94		0.21	30.00		184.80	880	26,400
12/94			30.00		0.00	880	26,400
2/95		0.25	31.00		220.00	880	27,280
5/95		0.25	32.00		220.00	880	28,160
6/95	5%		32.00		0.00	924	29,568
8/95		0.25	33.00		231.00	924	30,492
10/95	100%		17.50		0.00	1,848	32,340
11/95		0.125	19.00		231.00	1,848	35,112
2/96		0.13	20.00		240.24	1,848	36,960
5/96		0.13	22.00		240.24	1,848	40,656
8/96		0.13	23.00		240.24	1,848	42,504
11/96		0.13	23.50		240.24	1,848	43,428
12/96	2%		24.00	0.96	23.04	1,884	45,216
2/97		0.145	25.25		273.18	1,884	47,571
5/97		0.145	25.50		273.18	1,884	48,042
8/97		0.145	26.50		273.18	1,884	49,926
8/97	5%		26.50	0.20	5.30	1,978	52,417
11/97		0.145	27.50		286.81	1,978	54,395
2/98		0.15	27.50		296.70	1,978	54,395
5/98		0.15	28.00		296.70	1,978	55,384
8/98		0.15	30.00		296.70	1,978	59,340
10/98	100%		15.75		0.00	3,956	62,307
11/98		0.075	15.75		296.70	3,956	62,307
2/99		0.075	12.88		296.70	3,956	50,934
5/99		0.075	17.25		296.70	3,956	68,241
8/99		0.075	12.50		296.70	3,956	49,450
11/99		0.075	12.00		296.70	3,956	47,472
2/00		0.075	9.76		296.70	3,956	38,618
5/00		0.075	10.48		296.70	3,956	41,443
8/00		0.075	11.07		296.70	3,956	43,797
11/00		0.08	10.63		316.48	3,956	42,033
11/00	5%		10.63	0.80	8.50	4,153	44,126
2/01		0.08	10.00		332.24	4,153	41,530
5/01		0.08	12.01		332.24	4,153	49,878
8/01		0.09	14.89		373.77	4,153	61,838
11/01		0.09	16.60		373.77	4,153	68,940
11/01	5%		15.81	0.65	10.27	4,360	68,910
2/02		0.09	16.70		392.40	4,360	72,812
5/02		0.09	17.50		392.40	4,360	76,300
8/02		0.095	20.55		414.20	4,360	89,598
11/02		0.095	20.72		414.20	4,360	90,324
11/02	5%		19.73		0.00	4,578	90,324
12/31/02			17.87		0.00	4,578	81,809
2/03		0.095	17.71		434.91	4,578	81,076
5/03		0.095	16.01		434.91	4,578	73,294
8/03		0.10	16.20		457.80	4,578	74,164
10/03	5%		15.54	0.90	13.99	4,807	74,699
11/03		0.10	15.94		480.69	4,807	76,622
12/03			16.02			4,807	77,007
2/04		0.10	16.85		480.69	4,807	80,998
5/04		0.10	15.75		480.70	4,807	75,710
8/04		0.10	16.29		480.70	4,807	78,306
11/04		0.10	18.10		480.70	4,807	87,007
12/04			17.55			4,807	84,363
2/05		0.10	16.24		480.70	4,807	78,067
5/05		0.10	15.22		480.70	4,807	73,161
8/05		0.10	15.94		480.70	4,807	76,619
8/05	5%		15.18	0.35	5.31	5,047	76,619
11/05		0.10	15.15		504.74	5,047	76,467
12/05			14.70			5,047	74,196
2/06		0.10	15.58		504.74	5,047	78,638
5/06		0.10	13.97		504.74	5,047	70,511
8/06		0.10	15.54		504.74	5,047	78,436
8/06	5%		14.80	0.35	5.18	5,300	78,436
11/06		0.10	14.91		529.97	5,300	79,019
12/06			14.90			5,300	78,966
2/07		0.10	14.08		529.97	5,300	74,620
5/07		0.10	14.01		529.97	5,300	74,249
8/07		0.10	12.85		529.97	5,300	68,101
11/07		0.10	12.09		529.97	5,300	64,074
11/07	5%		11.51		0.00	5,565	64,050
12/07			11.59			5,565	64,495
				Total Cash	**$ 25,118**		**25,118**
			Total Including Cash Dividends				**$ 89,613**

Board of Directors and Officers

Lakeland Bancorp Board of Directors

John W. Fredericks*
Former Chairman,
Fredericks Fuel and Heating Service

Roger Bosma*
President and Chief Executive Officer,
Lakeland Bancorp and Lakeland Bank

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Brooks, LTD.

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

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

George H. Guptill, Jr.
Chairman,
Franklin Mutual Insurance Company

Janeth C. Hendershot
Vice President,
Munich Reinsurance America, Inc.,
A Reinsurance Company

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Robert Nicholson, III*
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Stephen R. Tilton, Sr.*
Chairman and Chief Executive Officer,
Tilton Securities, LLC

Paul G. Viall, Jr.*
President and Chief Executive Officer,
Ridgecrest Holdings, LLC

Arthur L. Zande*
Former President,
Lakeland Bank

**Also Director of Lakeland Bank*

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Robert B. Nicholson

Vice Chairman Emeritus
Bruce G. Bohuny

Director Emeritus
Paul P. Lubertazzi
John Pier
Albert S. Riggs
Charles L. Tice

Lakeland Bancorp Officers

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Chairman of the Board

Arthur L. Zande
Vice Chairman of the Board

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George H. Guptill, Jr.
Secretary of the Board

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Senior Executive Vice President and Chief Loan Officer

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Executive Vice President and Chief Retail Officer

Joseph F. Hurley
Executive Vice President and Chief Financial Officer

Louis E. Luddecke
Executive Vice President and Chief Operations Officer

James R. Noonan
Executive Vice President and Chief Credit Officer

Steven Schachtel
President,
Lakeland Bank Equipment Leasing Division

Lakeland Bank Officers

Administrative
John W. Fredericks
Chairman of the Board

Arthur L. Zande
Vice Chairman of the Board

Roger Bosma
President and Chief Executive Officer

George H. Guptill, Jr.
Secretary of the Board

Asset Based Lending
Gary R. Landau
Senior Vice President and Team Leader

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Vice President

Donna Calderaro
Vice President

Auditing
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Senior Vice President and Auditor

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Asst. Vice President and Asst. Auditor

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Asst. Treasurer

Jennifer Stecz
Asst. Treasurer

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Vice President

Jessica Hanak
Asst. Treasurer

BSA/AML/Compliance
Rasiel Kleiner
Senior Vice President

Thomas Askin
Asst. Vice President

Business Development
Raymond W. Cordts
Vice President (Northern Region)

Richard Garcia
Vice President (Eastern Region)

Commercial Loans
Bradley Bloss
Senior Vice President, Team Leader (Oak Ridge)

Diane Clemente
Senior Vice President, Team Leader (Montville)

Mary T. Karakos
Senior Vice President, Team Leader (Newton)

Stephen Novak
Senior Vice President, Team Leader (Wyckoff)

Vincent Spero
Senior Vice President, Team Leader (Teaneck)

Bruce C. Bready
Vice President (Newton)

Thomas Butler
Vice President (Wyckoff)

Philip H. Davis
Vice President (Oak Ridge)

Russell Dunn
Vice President (Oak Ridge)

Connie Feeney
Vice President (Teaneck)

Robert Feldmann
Vice President (Montville)

Aldric Fortner
Vice President (Oak Ridge)

Jeremy Greenman
Vice President (Morristown)

Michael J. Gullifer
Vice President (Newton)

Beth Johns
Vice President (Montville)

Edward Martini
Vice President (Teaneck)

Board of Directors and Officers

Kevin P. Prendergast
Vice President (Newton)

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Vice President (Teaneck)

Hector Velazquez
Vice President (Teaneck)

Mark Bahnuk
Asst. Treasurer (Newton)

Eralba Di Manno
Asst. Treasurer (Teaneck)

Jason McGowan
Asst. Treasurer (Montville)

Marilyn M. Solanka
Asst. Treasurer (Newton)

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Vice President

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Senior Vice President

Carl Grau
Vice President

Matthew Salmon
Asst. Vice President

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Vice President

John Werba
Vice President

James Trotta
Asst. Vice President

Credit Administration

Leo Macali
Vice President

Christina Sacerdote
Vice President

Donald Walsh
Vice President

Mary Mola
Asst. Vice President

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Vice President

Facilities/Purchasing

Tina L. George
Vice President

Finance

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Senior Vice President, Controller

Harry Cooper
Vice President

Karen Stevens
Asst. Vice President

Betty Frint
Asst. Treasurer

Human Resources

Connie Ann Meehan
Vice President

Betsy Kalman
Asst. Vice President

Information Systems

Mary Kaye Nardone
Senior Vice President

David Pick
Asst. Vice President

Investment Group

Catherine Barbier
Asst. Vice President

Jeffrey T. Beebe
Asst. Vice President

John Devine
Asst. Vice President

Joe Dolan
Asst. Vice President

Todd Galinko
Asst. Vice President

Michael Gunza
Asst. Vice President

Leasing Division

Steven Schachtel
President

Robert Ingram
Vice President

Kevin Kepp – AZ
Vice President

Brian Riordan – CT
Vice President

Philip Smith
Vice President

Gregory Wolff
Vice President

Kenneth Markman
Asst. Vice President

William Schachtel
Asst. Vice President

Karen Amorosi
Asst. Treasurer

Loan Operations

Gail D. Martin
Senior Vice President

Maureen E. McCully
Asst. Vice President

Karen Bennett
Asst. Treasurer

Marketing

Tony Rose
Vice President

Mortgage Underwriting

John Walker
Vice President

Cynthia San Philip
Asst. Vice President

Lynne M. Bower
Asst. Treasurer

Mortgage Origination

Jay Bacco
Asst. Vice President,
Personal Mortgage Consultant
(Oak Ridge)

Kermit Ferrant
Asst. Vice President,
Personal Mortgage Consultant
(Montville)

Amy Koebler
Asst. Vice President,
Personal Mortgage Consultant
(Teaneck)

William Murphy
Asst. Vice President,
Personal Mortgage Consultant
(Branchville)

Regional Branch Administrators

Karen Garrera
Senior Vice President (Southern Region)

M. Keith Niedergall
Vice President (Northern Region)

Richard Petouvis
Vice President (Eastern Region)

Retail Sales

Kathleen D'Ambrosio
Vice President (Eastern Region)

M. Kristen Elsishans
Vice President (Southern Region)

Barbara Woods
Asst. Vice President (Northern Region)

Security

Thomas M. Post
Vice President

Peter Romaine
Vice President

Training

Carol Gelormino
Vice President

Debbie Morris
Asst. Treasurer

Lakeland Bank Offices

Andover Office
615 Route 206,
Newton, NJ 07860
(973) 383-3301
Helen Nieves,
Asst. Treasurer, Manager
Crystal Newhouse, *Asst. Branch Manager*

Bloomingdale Office
28 Main Street,
Bloomingdale, NJ 07403
(973) 838-7300
Roberta H. Rovas,
Asst. Vice President, Manager
Elizabeth Pearson, *Asst. Branch Manager*

Boonton Office
321 West Main Street,
Boonton, NJ 07005
(973) 316-5811
Joan Magrane,
Asst. Vice President, Manager
Christine Shaw, *Asst. Branch Manager*

Branchville Office
362 Route 206,
Branchville, NJ 07826
(973) 948-5115
Martha Newbold,
Asst. Vice President, Manager
Bobbi-Jo Corey, *Asst. Branch Manager*

Branchville Downtown Office
3 Broad Street,
Branchville, NJ 07826
(973) 948-9500
Eileen P. Diehl,
Asst. Vice President, Manager
Maggie Decker, *Asst. Branch Manager*

Bristol Glen Office
200 Bristol Glen Drive,
Newton, NJ 07860
(973) 940-1190
Helen Nieves,
Asst. Treasurer, Manager

Butler Office
1410 Route 23 North,
Butler, NJ 07405
(973) 838-1133
Karen Brown, *Asst. Branch Manager*

Byram Office
80 Route 206,
Stanhope, NJ 07874
(973) 448-2961
Helen Nieves,
Asst. Treasurer, Manager
Carolyn Luisi, *Asst. Branch Manager*

Caldwell Office
49-53 Bloomfield Avenue,
Caldwell, NJ 07006
(973) 618-0193
Mary Ann T. Luke,
Asst. Vice President, Manager
Sonal Parikh, *Asst. Branch Manager*

Carey Avenue Office
6 Carey Avenue,
Butler, NJ 07405
(973) 283-9488
Karen Joy, *Asst. Branch Manager*

Carlstadt Office
325 Garden Street,
Carlstadt, NJ 07072
(201) 672-0810
Kenneth Kirby,
Asst. Vice President, Manager
Suzanne Fonseca, *Asst. Branch Manager*

Cedar Crest Village Office
Route 23 South,
Pompton Plains, NJ 07444
(973) 839-2880
Hannah Shea-Nomer,
Asst. Treasurer, Manager

Englewood Office
42 North Dean Street,
Englewood, NJ 07631
(201) 569-9693
Giuseppe Cascio,
Asst. Treasurer, Manager
Debra Reade, *Asst. Branch Manager*

Fairfield Office
1275 Bloomfield Avenue,
Fairfield, NJ 07004
(973) 575-7373
Mary Ann T. Luke,
Asst. Vice President, Manager
Dean Arfin, *Asst. Branch Manager*

Frankford (Drive-Up) Office
134 Route 206,
Augusta, NJ 07822
(973) 948-2777
Martha Newbold,
Asst. Vice President, Manager

Franklin Office
25 Route 23,
Franklin, NJ 07416
(973) 209-4400
Susan Kinney,
Asst. Treasurer, Manager
Janice Gaughan, *Asst. Branch Manager*

Fredon Office
395 Route 94,
Fredon, NJ 07860
(973) 579-2775
Pat Rosenberg,
Asst. Vice President, Manager
Linda Kinney, *Asst. Branch Manager*

Hackensack Office
235 Main Street,
Hackensack, NJ 07601
(201) 678-1700
Susan Nesbit,
Asst. Treasurer, Manager
Myrle-Ann Cherry, *Asst. Branch Manager*

Hampton Office
11 Hampton House Road,
Newton, NJ 07860
(973) 300-3300
Deborah Parker,
Asst. Vice President, Manager
Wendy Rude, *Asst. Branch Manager*

Hardyston Office
3617 Route 94,
Hardyston, NJ 07419
(973) 827-0100
Tina McCarrick,
Asst. Treasurer, Manager
Bertha Valentin, *Asst. Branch Manager*

Haskell Office
1054 Ringwood Avenue,
Haskell, NJ 07420
(973) 616-2590
Kelly Smits,
Asst. Vice President, Manager
Teresa Marion, *Asst. Branch Manager*

Hewitt Office
1943 Union Valley Road,
Hewitt, NJ 07421
(973) 728-7100
Carianne Reeber,
Asst. Treasurer, Manager
Jacqueline Hayes, *Asst. Branch Manager*

Lafayette Office
37 Route 15,
Lafayette, NJ 07848
(973) 383-5500
Carolann Rhinesmith,
Asst. Vice President, Manager
Xiomara Leszkowicz, *Asst. Branch Manager*

Little Falls Office
86-88 Main Street,
Little Falls, NJ 07424
(973) 237-9253
Joseph Leone,
Asst. Vice President, Manager
Fern Peters, *Asst. Branch Manager*

Milton Office
5729 Berkshire Valley Road,
Oak Ridge, NJ 07438
(973) 697-4600
Lenora McGuire,
Asst. Vice President, Manager

Montville Office
166 Changebridge Road,
Montville, NJ 07045
(973) 882-0800
Chris Nichols,
Asst. Vice President, Manager
Drew Ter Waarbeek, *Asst. Branch Manager*

Lakeland Bank Offices

Morristown Office
65 Madison Avenue, Suite 101,
Morristown, NJ 07960
(973) 539-4193
Susan Bonanni,
Asst. Vice President, Manager
Nancy Norman, *Asst. Branch Manager*

Newfoundland Office
2717 Rt. 23 South,
Newfoundland, NJ 07435
(973) 697-2040
Karen L. Sabyan,
Asst. Vice President, Manager
Virginia Zaccaro, *Asst. Branch Manager*

North Haledon Office
892 Belmont Avenue,
North Haledon, NJ 07508
(973) 427-1035
Aynur Karce,
Asst. Vice President, Manager
Ricky Mann, *Asst. Branch Manager*

North Warren Office
1226 Route 94,
Frelinghuysen Twp., NJ 07825
(908) 362-6141
Pat Rosenberg,
Asst. Vice President, Manager
Linda Read, *Asst. Branch Manager*

Park Place Office
30 Park Place,
Newton, NJ 07860
(973) 383-2400
Nancy Morrisey,
Asst. Vice President, Manager
Donna Twaits, *Asst. Branch Manager*

Park Ridge Office
139 Kinderkamack Road,
Park Ridge, NJ 07656
(201) 476-0044
Linda Caron,
Asst. Vice President, Manager

Pompton Plains Office
901 Route 23 South,
Pompton Plains, NJ 07444
(973) 839-8095
Kenneth Partyka,
Asst. Vice President, Manager
Teresa Cirino, *Asst. Branch Manager*

Ringwood Office
45 Skyline Drive,
Ringwood, NJ 07456
(973) 962-4400
Joan Leskanic,
Asst. Vice President, Manager
Sharla Farnhagen, *Asst. Branch Manager*

Rockaway Office
Rockaway Townsquare Mall, Suite 2066,
Rockaway, NJ 07866
(973) 989-8627
Susan Bonanni,
Asst. Vice President, Manager
Lois Binns, *Asst. Branch Manager*

Sparta Office
117 Sparta Avenue,
Sparta, NJ 07871
(973) 729-8181
Patrick Lasslett,
Asst. Vice President, Manager
Inge Parastschenko, *Asst. Branch Manager*

Sparta Downtown Office
48 Sparta Avenue,
Sparta, NJ 07871
(973) 729-4400
Patrick Lasslett,
Asst. Vice President, Manager
Susan Wilke, *Asst. Branch Manager*

Stanhope Office
143 Route 183,
Stanhope, NJ 07874
(973) 347-4211
Eileen DeCaro,
Asst. Vice President, Manager

Stillwater Office
902 Main Street,
Stillwater, NJ 07875
(973) 579-3300
Bette Schaumburg,
Asst. Treasurer, Manager

Sussex/Wantage Office
455 Route 23,
Wantage, NJ 07461
(973) 875-7155
Jennifer Morciglio,
Asst. Vice President, Manager
Terry Scheel, *Asst. Branch Manager*

Teaneck Office
417 Cedar Lane,
Teaneck, NJ 07666
(201) 836-7717
Evan Consoni,
Asst. Treasurer, Manager
Charlene Gordon, *Asst. Branch Manager*

Trinity Street (Drive-Up) Office
29 Trinity Street,
Newton, NJ 07860
(973) 383-2400
Nancy Morrisey,
Asst. Vice President, Manager

Vernon Office
529 Route 515,
Vernon, NJ 07462
(973) 764-3100
Jennifer Harkey,
Asst. Vice President, Manager
Denise Drogo, *Asst. Branch Manager*

Wanaque Office
103 Ringwood Avenue,
Wanaque, NJ 07465
(973) 839-5000
Kelly Smits,
Asst. Vice President, Manager
Ornella (Mimi) Kardanow,
Asst. Branch Manager

Wantage Office
205 Route 23,
Wantage, NJ 07461
(973) 875-3136
Virginia (Ginny) De Finis,
Asst. Vice President, Manager
Dawn Kneer, *Asst. Branch Manager*

West Milford Office
1527 Union Valley Road,
West Milford, NJ 07480
(973) 728-7780
Rehab Elmoslemany,
Asst. Treasurer, Manager

Wharton Office
350 North Main Street,
Wharton, NJ 07885
(973) 989-1520
Eftychia Gizas,
Asst. Treasurer, Manager
Lubiana Alim, *Asst. Branch Manager*

Woodland Commons Office
1 Cedar Crest Village Drive,
Pompton Plains, NJ 07444
(973) 831-6089
Hannah Shea-Nomer,
Asst. Treasurer, Manager

Wyckoff Office
652 Wyckoff Avenue,
Wyckoff, NJ 07481
(201) 847-2480
Nina E. Luongo,
Asst. Vice President, Manager
Jennifer Sparnon, *Asst. Branch Manager*

*ATMs at all locations except Trinity St.
Other ATM locations: Wantage A&P Store

Advisory Boards

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Fred Butcher, CPA
John C. Chanas, CFC
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David Marione - Tab Microfilm
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John A. Piraneo, Sr. - J & H Holding Company
Frank Rafferty - K & N Sporting Goods
Robert C. Shelton, Jr., Esq.
Sally Smith - Airborne Animals
Judy Togno - Weichert Real Estate

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Nicholas M. Salleroli, Pres. - Rivers, Inc.
Jay Soojian, CPA - Cullari, Gallo, Soojian, Carrabba
George Struble, Esq. - Struble & Ragno, PC

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Nicholas J. Cerbo - S. Cerbo & Sons Lumber Co., Inc.
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Edmond W. Hardy, CPA - Smolin, Lupin & Co.
Karen Korinda - Hubler Realty
James A. Lynch, CPA
Larry S. Raiken, Esq. - Berkowitz & Raiken, LLC
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James Sweynor - Bob's Men's Shop
Aaron Van Duyne III, CPA - Van Duyne, Behrens & Co., PA
Salvatore Yodice, CPA

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Harry D. Hennion - Public Accountant
Lynn Lancaster - Advanced Networking Comm. Corp.
Frank D. Negri, Sr. - Papa Roni & Friendly's Restaurants
Kirk S. Perry - Castle Storage/Castle Video
Richard M. Roy - The Roy Company
Christopher L. Vealey - Vealey Excavating & Equipment Rental

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Rose DiMeo, Pres./CEO - Hampton-Clarke, Inc.
John W. Kuhn, VP - Grubb & Ellis Comm. RE
James R. Matarazzo, Jr. - John Young Realty/GMAC Real Estate
Mark H. Rochkind, Esq.
Dawn R. SanFilippo, Esq.
Albert Tobia - Tobia & Hillyer Financial & Tax Services, Inc.

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Janet Higgins - JR Higgins Realty
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Giuseppe Scirocco - LJ's Corp. Caterers & Food Serv.
Kevin M. Settembrino, Reg. Dir. - BSA, Inc.
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Vernon Merritt - Smart! Marketing Co.
Carl W. Nelson, Esq. - Koch & Nelson
Joanne Reder - Sussex Co. Real Estate
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Edward Logan, CPA
Linda McCullough - RE/MAX Properties Unlimited
Robert J. Nebel - Century 21 Visions Realty
Robert J. Riegler, Esq.

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Eugene Genise, Esq.
John H. Sullivan - Delta/Marcliff Insurance Agency
Judith Schumacher Tilton - Schumacher Chevrolet, Inc.
Dolores C. Stanek - Retired
Peter S. Wasik, CPA

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Kenneth J. Fox, A.I.A. - Fox Architectural Design, PC
C. Suzanne Kustelski - Quality Time, Inc.
Robert G. Lamana - Accountant
Jeffrey A. Oster, PI - Oster Agency
Lewis S. Weinstock, Pres. - Linear Electric Co., Inc.
William Young - Bill Young's Gulf Service, Inc.

MORRISTOWN

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David Berman, Esq.
Frank A. Boffa, CPA
Robert Henion, Jr., CPA
Norman Herms, Jr. - Gray Supply Corp.
Allen Kopelson - Nadaskay, Kopelson Architects, PA
John M. Mills, III, Esq.
Tony Rispoli, CPA - Nisivoccia & Co., LLP
Richard M. Traynor, Esq. - Porzio, Bromberg & Newman, PC

PARK RIDGE

Lou Baldanza - Baldanza Construction
Robert J. Mancinelli, Esq. - Rubenstein, Meyerson, Fox & Mancinelli, PA
Steve Napolitano - SNS Architect & Engineers
Cesar A. Ramos - Austral Construction, Inc.
Dino Rizzo, CPA - Gramkow, Carnevale, Seifert & Co., LLC
Robert Schroeder - All Points Intern'l. Dist.
Rick Shulman - Price, Meese, Shulman & D'Armino

POMPTON PLAINS/RINGWOOD/ WANAQUE & HASKELL

James P. Cutillo - Architect/Planner
Robert A. Ferdon - Dreyfus Ashby Wine Dist. & Co.
Richard C. Fleischer, CPA
Ronald Gray, Jr., CPA - Lembo & Gray, LLC
Donald Hubner - Central Shippee Felt, Inc.
James LaSala, Esq.
Robert A. Lyons, Dir. - Passaic County Police Academy
Alan Molner - Retired
Patrick J. Murray - PJ Murray & Sons Refrig. & A/C
Michael Walker, Esq. - Higgins & Walker

SPARTA/HAMPTON & PARK PLACE

Louis Criscuoli, Esq.
Jude Digidio, CFP - B & D Group, Inc.
George R. Frizzell, Sr., CPA
William C. Gray - Retired Veterinarian
William T. Haggerty, Esq. - Dolan & Dolan, PA
Ailish Hambel - Ailish's Alpine Paint Center
Felix J. McIntyre, CPA
Keith Mitchell - Mitchell Agency Insurance
Michael Murphy, CPA
Debra Lynn Nicholson-Marcellus, Esq.
William J. Scarpa, MD - Cardiology Med. Assoc.
Megan Ward, Esq. - Kelly & Ward, LLC

TEANECK/HACKENSACK & ENGLEWOOD

Joseph F. Behot, Jr., Esq. - Sokol, Behot & Fiorenzo
Michael J. Brady, Esq. - Harwood Lloyd, LLC
Lynn Jantos Donovan - Property Connections
Joseph Fatony - AFC Realty Capital, Inc.
Arnold I. Greene - Rainbow Properties, LLC
Joseph R. Mariniello, Jr., Esq.
Jan Meyer, Esq.
Tom Mizzone Jr., CPA
Lloyd Putter - 2001 Real Estate
Lewis Reicher, Esq.

WYCKOFF

Stephen K. Bommer - Firm Insurance, Inc.
Paul E. DeGise, Pres. - The DeGise Ins. Agency, Inc.
Terrence A. Fernicola, Pres. - Total Concept
Harold Galenkamp - Wyckoff Twp. Committee Member
Eugene Luccarelli, CPA
Peter E. Riccobene, Esq. - Teschon, Riccobene & Siss, PA
Robert J. Romano, Jr., Esq.

Investor Information

STOCK LISTING

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

DIVIDEND CALENDAR

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

DIVIDEND REINVESTMENT PLAN AND DIRECT DEPOSIT OF CASH DIVIDENDS

Lakeland Bancorp, Inc. offers its shareholders the convenience of a Dividend Reinvestment
and Stock Purchase Plan, and the direct deposit of cash dividends.

Holders of stock may have their quarterly dividends automatically invested
in additional shares of the Bancorp's common stock by utilizing the Dividend Reinvestment Plan.

All registered shareholders may also make voluntary cash contributions not to
exceed $5,000 per quarter.

Shareholders also have the option of having their cash dividends sent directly
to their financial institution for deposit into their savings or checking account.

Shareholders may receive information on either the Dividend Reinvestment
and Stock Purchase Plan or direct deposit of cash dividends from:

American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
1-800-937-5449
www.amstock.com

FORM 10-K

A copy of the Corporation's Annual Report to the Securities and Exchange Commission,
Form 10-K, may be obtained without charge to shareholders
by writing to:

Mrs. Rita Myers, Senior Vice President & Controller
Lakeland Bancorp, Inc.
250 Oak Ridge Road
Oak Ridge, NJ 07438

REGISTRAR AND TRANSFER AGENT

American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
1-800-937-5449
www.amstock.com

CORPORATE HEADQUARTERS

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

Information on Lakeland Bancorp, Inc. can also be found
on the Internet at: **www.lakelandbank.com**

Lakeland
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