LAKELAND BANCORP INC
Form 10-Q
May 08, 2018

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark one)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 000-17820
LAKELAND BANCORP, INC.
(Exact name of registrant as specified in its charter)

New Jersey	22-2953275
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
250 Oak Ridge Road, Oak Ridge, New Jersey	07438
(Address of principal executive offices)	(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report.)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act: (Check one):
Large accelerated filer [X] Accelerated filer [] Non-accelerated filer [ ] Smaller reporting company [ ] Emerging growth company [ ]
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes [ ] No [X]
APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
As of April 27, 2018, there were 47,475,579 outstanding shares of Common Stock, no par value.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (unaudited)	December 31, 2017
	(dollars in thousands)	
ASSETS		
Cash	$123,437	$114,138
Interest-bearing deposits due from banks	9,598	28,795
Total cash and cash equivalents	133,035	142,933
Investment securities available for sale, at fair value	623,242	628,046
Equity securities, at fair value	18,397	18,089
Investment securities held to maturity; fair value of $149,213 at March 31, 2018 and $138,688 at December 31, 2017	152,127	139,685
Federal Home Loan Bank and other membership bank stock, at cost	11,888	12,576
Loans, net of deferred costs (fees)	4,223,969	4,152,720
Less: allowance for loan and lease losses	35,644	35,455
Net loans	4,188,325	4,117,265
Loans held for sale	—	456
Premises and equipment, net	50,360	50,313
Accrued interest receivable	14,675	14,416
Goodwill	136,433	136,433
Other identifiable intangible assets	2,205	2,362
Bank owned life insurance	108,224	107,489
Other assets	38,918	35,576
TOTAL ASSETS	$5,477,829	$5,405,639
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$974,641	$967,335
Savings and interest-bearing transaction accounts	2,682,726	2,663,985
Time deposits $250 thousand and under	567,248	556,863
Time deposits over $250 thousand	223,350	180,565
Total deposits	4,447,965	4,368,748
Federal funds purchased and securities sold under agreements to repurchase	126,485	124,936
Other borrowings	176,974	192,011
Subordinated debentures	104,932	104,902
Other liabilities	32,825	31,920
TOTAL LIABILITIES	4,889,181	4,822,517
STOCKHOLDERS’ EQUITY		
Common stock, no par value; authorized 70,000,000 shares; issued shares, 47,475,579 at March 31, 2018 and 47,353,864 at December 31, 2017	513,232	512,734
Retained earnings	85,257	72,737
Accumulated other comprehensive income	(9,841)	(2,349)
TOTAL STOCKHOLDERS’ EQUITY	588,648	583,122

TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$5,477,829	$5,405,639

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

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Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2018	2017
	(in thousands, except per share data)	
INTEREST INCOME		
Loans, leases and fees	$ 45,544	$ 40,411
Federal funds sold and interest-bearing deposits with banks	166	276
Taxable investment securities and other	3,992	3,599
Tax-exempt investment securities	443	510
TOTAL INTEREST INCOME	50,145	44,796
INTEREST EXPENSE		
Deposits	5,755	3,334
Federal funds purchased and securities sold under agreements to repurchase	134	10
Other borrowings	2,020	2,129
TOTAL INTEREST EXPENSE	7,909	5,473
NET INTEREST INCOME	42,236	39,323
Provision for loan and lease losses	1,284	1,218
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	40,952	38,105
NONINTEREST INCOME		
Service charges on deposit accounts	2,611	2,455
Commissions and fees	1,272	1,156
Income on bank owned life insurance	719	426
Gains on sales of loans	246	398
Gains on sales of investment securities, net	—	2,539
Other income	486	1,120
TOTAL NONINTEREST INCOME	5,334	8,094
NONINTEREST EXPENSE		
Salaries and employee benefits	16,861	15,417
Net occupancy expense	2,738	2,836
Furniture and equipment	2,206	2,097
FDIC insurance expense	425	318
Stationery, supplies and postage	416	443
Marketing expense	361	401
Data processing expense	466	553
Telecommunications expense	421	404
ATM and debit card expense	510	441
Core deposit intangible amortization	157	195
Other real estate and repossessed asset expense	46	37
Long-term debt prepayment fee	—	2,828
Other expenses	2,530	2,500
TOTAL NONINTEREST EXPENSE	27,137	28,470
Income before provision for income taxes	19,149	17,729
Provision for income taxes	3,894	5,417

NET INCOME	$ 15,255	$ 12,312
PER SHARE OF COMMON STOCK		
Basic earnings	$ 0.32	$ 0.26
Diluted earnings	$ 0.32	$ 0.26
Dividends	$ 0.100	$ 0.095

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

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Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2018	2017
	(in thousands)	
NET INCOME	$15,255	$12,312
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Unrealized gains (losses) on securities available for sale	(5,732)	734
Reclassification for securities gains included in net income	—	(1,649)
Unrealized gains on derivatives	283	14
Other comprehensive loss	(5,449)	(901)
TOTAL COMPREHENSIVE INCOME	$9,806	$11,411

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

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Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
For the Three Months Ended March 31, 2018 and 2017

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	(in thousands)			
At January 1, 2017	$510,861	$38,590	$ 593	$550,044
Net income	—	12,312	—	12,312
Other comprehensive loss, net of tax	—	—	(901)	(901)
Stock based compensation	1,170	—	—	1,170
Exercise of stock options	300	—	—	300
Retirement of restricted stock	(756)	—	—	(756)
Cash dividends, common stock	—	(4,527)	—	(4,527)
At March 31, 2017	$511,575	$46,375	$ (308)	$557,642
At January 1, 2018	$512,734	$72,737	$ (2,349)	$583,122
Cumulative adjustment for adoption of ASU 2016-01	—	2,043	(2,043)	—
January 1, 2018, as adjusted	512,734	74,780	(4,392)	583,122
Net income	—	15,255	—	15,255
Other comprehensive loss, net of tax	—	—	(5,449)	(5,449)
Stock based compensation	994	—	—	994
Exercise of stock options	248	—	—	248
Retirement of restricted stock	(744)	—	—	(744)
Cash dividends, common stock	—	(4,778)	—	(4,778)
At March 31, 2018	$513,232	$85,257	$ (9,841)	$588,648

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

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Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31,	
	2018	2017
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$15,255	$12,312
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums, discounts and deferred loan fees and costs	1,250	1,296
Depreciation and amortization	1,323	1,012
Amortization of intangible assets	157	195
Provision for loan and lease losses	1,284	1,218
Loans originated for sale	(8,473)	(13,427)
Proceeds from sales of loans held for sale	9,175	14,800
Gains on sales of securities	—	(2,539)
Change in market value of equity securities	18	—
Gains on sales of loans held for sale	(246)	(398)
Gains on other real estate and other repossessed assets	(25)	(339)
(Gains) losses on sales of premises and equipment	—	(367)
Long-term debt prepayment penalty	—	2,828
Stock-based compensation	994	1,170
Excess tax benefits	298	573
Increase in other assets	(2,388)	(4,074)
Increase in other liabilities	1,262	5,467
NET CASH PROVIDED BY OPERATING ACTIVITIES	19,884	19,727
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from repayments and maturities of available for sale securities	20,928	20,613
Proceeds from repayments and maturities of held to maturity securities	5,820	4,143
Proceeds from sales of available for sale securities	—	4,499
Purchase of available for sale securities	(24,589)	(105,475)
Purchase of held to maturity securities	(18,461)	(5,078)
Purchase of equity securities	(326)	—
Proceeds from redemptions of Federal Home Loan Bank stock	688	3,026
Net increase in loans and leases	(73,247)	(103,936)
Proceeds from sales of other real estate and repossessed assets	145	2,853
Proceeds from dispositions and sales of premises and equipment	—	849
Purchases of premises and equipment	(1,354)	(810)
NET CASH USED IN INVESTING ACTIVITIES	(90,396)	(179,316)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	79,339	200,739
Increase in federal funds purchased and securities sold under agreements to repurchase	1,549	28,496
Repayments of other borrowings	(15,000)	(90,058)
Exercise of stock options	248	300
Retirement of restricted stock	(744)	(756)
Dividends paid	(4,778)	(4,527)
NET CASH PROVIDED BY FINANCING ACTIVITIES	60,614	134,194
Net decrease in cash and cash equivalents	(9,898)	(25,395)

Cash and cash equivalents, beginning of period	142,933	175,801
CASH AND CASH EQUIVALENTS, END OF PERIOD	$133,035	$150,406

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	For the Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Supplemental schedule of non-cash investing and financing activities:		
Cash paid during the period for income taxes	$2,046	$6,250
Cash paid during the period for interest	6,716	6,667
Transfer of loans and leases into other repossessed assets and other real estate owned	669	2,152

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

Lakeland Bancorp, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

This quarterly report presents the consolidated financial statements of Lakeland Bancorp, Inc. and its subsidiaries, including Lakeland Bank ("Lakeland") and the Bank's wholly owned subsidiaries (collectively, the "Company"). The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America ("U.S. GAAP") and predominant practices within the banking industry. The Company's unaudited interim financial statements reflect all adjustments, such as normal recurring accruals that are, in the opinion of management, necessary for the fair presentation of the results of the interim periods. The results of operations for the three months ended March 31, 2018 do not necessarily indicate the results that the Company will achieve for all of 2018.

Certain information and footnote disclosures required under U.S. GAAP have been condensed or omitted, as permitted by rules and regulations of the Securities and Exchange Commission. These unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes that are presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Certain reclassifications have been made in the consolidated financial statements to conform with current year classifications.

NOTE 2 – REVENUE RECOGNITION

The Company's primary source of revenue is interest income generated from loans, leases and investment securities. Interest income is recognized according to the terms of the financial instrument agreement over the life of the loan, lease or investment security unless it is determined that the counterparty is unable to continue making interest payments. Interest income also includes prepaid interest fees from commercial customers, which approximates the interest foregone on the balance of the loan prepaid.

The Company's additional source of income, also referred to as noninterest income, is generated from deposit related fees, interchange fees, loan and lease fees, merchant fees, loan sales and other miscellaneous income and is largely based on contracts with customers. In these cases, the Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. The Company considers a customer to be any party to which the Company will provide goods or services that are an output of the Company's ordinary activities in exchange for consideration. There is little seasonality with regards to revenue from contracts with customers and all inter-company revenue is eliminated when the Company's financial statements are consolidated.

Generally, the Company enters into contracts with customers that are short-term in nature where the performance obligations are fulfilled and payment is processed at the same time. Such examples include revenue related to merchant fees, interchange fees and investment services income. In addition, revenue generated from existing customer relationships such as deposit accounts are also considered short-term in nature, because the relationship may be terminated at any time and payment is processed at the time performance obligations are fulfilled. As a result, the Company does not have contract assets, contract liabilities or related receivable accounts for contracts with customers. In cases where collectability is a concern, the Company does not record revenue.

Generally, the pricing of transactions between the Company and each customer is either (i) established within a legally enforceable contract between the two parties, as is the case with the loan sales, or (ii) disclosed to the customer at a specific point in time, as is the case when a deposit account is opened or before a new loan is underwritten. Fees are usually fixed at a specific amount or as a percentage of a transaction amount. No judgment or estimates by management are required to record revenue related to these transactions and pricing is clearly identified within these contracts.

The Company primarily operates in one geographic region, Northern and Central New Jersey and contiguous areas. Therefore, all significant operating decisions are based upon analysis of the Company as one operating segment or unit.

We disaggregate our revenue from contracts with customers by contract-type and timing of revenue recognition, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. Noninterest income not generated from customers during the Company’s ordinary activities primarily relates to mortgage servicing rights, gains/losses on the sale of investment securities, gains/losses on the sale of other real estate owned, gains/losses on the sale of property, plant and equipment, and income from bank owned life insurance. The following table sets forth the components of noninterest income for the three months ended March 31, 2018 and 2017:

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	For the Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Deposit Related Fees and Charges		
Debit card interchange income	$1,118	$990
Overdraft charges	1,109	1,153
ATM service charges	190	162
Demand deposit fees and charges	158	136
Savings service charges	36	14
Total	2,611	2,455
Commissions and Fees		
Loan and lease fees	322	236
Wire transfer charges	248	227
Investment services income	228	241
Merchant fees	216	242
Commissions from sales of checks	108	117
Safe deposit income	84	64
Other income	63	23
Total	1,269	1,150
Gains on Sale of Loans	246	398
Other Income		
Gains on customer swap transactions	332	359
Title insurance income	49	28
Other income	97	38
Total	478	425
Revenue not from contracts with customers	730	3,666
Total Noninterest Income	5,334	8,094
Timing of Revenue Recognition		
Products and services transferred at a point in time	4,585	4,413
Products and services transferred over time	19	15
Revenue not from contracts with customers	730	3,666
Total Noninterest Income	$5,334	$8,094

NOTE 3 – EARNINGS PER SHARE

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

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	For the Three Months Ended March 31,	
	2018	2017
	(in thousands, except per share data)	
Net income available to common shareholders	$ 15,255	$ 12,312
Less: earnings allocated to participating securities	141	121
Net income allocated to common shareholders	$ 15,114	$ 12,191
Weighted average number of common shares outstanding - basic	47,503	47,354
Share-based plans	233	269
Weighted average number of common shares outstanding -diluted	47,736	47,623
Basic earnings per share	$ 0.32	$ 0.26
Diluted earnings per share	$ 0.32	$ 0.26

There were no antidilutive options to purchase common stock excluded from the computation for the three months ended March 31, 2018 and 2017.

NOTE 4 – INVESTMENT SECURITIES

	March 31, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)				(in thousands)			
AVAILABLE FOR SALE								
U.S. Treasury and U.S. government agencies	$147,678	$ 27	$(3,005)	$144,700	$148,968	$ 78	$(1,791)	$147,255
Mortgage-backed securities, residential	421,077	158	(10,718)	410,517	419,538	479	(5,763)	414,254
Mortgage-backed securities, multifamily	13,200	—	(256)	12,944	10,133	7	(63)	10,077
Obligations of states and political subdivisions	50,671	189	(873)	49,987	51,289	448	(417)	51,320
Debt securities	5,000	94	—	5,094	5,000	140	—	5,140
	$637,626	$ 468	$(14,852)	$623,242	$634,928	$ 1,152	$(8,034)	$628,046

	March 31, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)				(in thousands)			
HELD TO MATURITY								
U.S. government agencies	$38,694	$ —	$(793)	$37,901	$33,415	$ 24	$(402)	$33,037
Mortgage-backed securities, residential	65,614	164	(1,984)	63,794	54,991	249	(978)	54,262
Mortgage-backed securities, multifamily	1,931	—	(44)	1,887	1,957	—	(22)	1,935
Obligations of states and political subdivisions	39,886	133	(412)	39,607	43,318	306	(188)	43,436
Debt securities	6,002	22	—	6,024	6,004	14	—	6,018
	$152,127	$ 319	$(3,233)	$149,213	$139,685	$ 593	$(1,590)	$138,688

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

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March 31, 2018	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$22,184	$22,074	$13,926	$13,921
Due after one year through five years	102,466	100,885	39,602	39,172
Due after five years through ten years	49,826	48,236	27,775	27,247
Due after ten years	28,873	28,586	3,279	3,192
	203,349	199,781	84,582	83,532
Mortgage-backed securities	434,277	423,461	67,545	65,681
Total securities	$637,626	$623,242	$152,127	$149,213

The following table shows proceeds from sales of securities and gross gains and losses on sales of securities for the periods indicated (in thousands):

	For the Three Months Ended March 31,	
	2018	2017
Sale proceeds	$—	$4,499
Gross gains	—	2,539
Gross losses	—	—

There were no other-than-temporary impairments during the three months ended March 31, 2018 or 2017.

Gains or losses on sales of investment securities are based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method.

Securities with a carrying value of approximately $388.6 million and $400.4 million at March 31, 2018 and December 31, 2017, 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 for the periods presented:

March 31, 2018	Less Than 12 Months		12 Months or Longer		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
			(dollars in thousands)				
AVAILABLE FOR SALE							
U.S. Treasury and U.S. government agencies	$79,243	$ 1,393	$54,249	$ 1,612	26	$133,492	$ 3,005
Mortgage-backed securities, residential	236,142	4,725	153,022	5,993	147	389,164	10,718
Mortgage-backed securities, multifamily	7,920	144	5,024	112	3	12,944	256
Obligations of states and political subdivisions	21,666	291	12,689	582	63	34,355	873
	$344,971	$ 6,553	$224,984	$ 8,299	239	$569,955	$ 14,852
HELD TO MATURITY							
U.S. government agencies	$31,295	$ 372	$6,605	$ 421	7	$37,900	$ 793
Mortgage-backed securities, residential	41,131	1,110	18,323	874	32	59,454	1,984
Mortgage-backed securities, multifamily	1,887	44	—	—	2	1,887	44

Obligations of states and political subdivisions	20,440	222	5,948	190	38	26,388	412
	$94,753	$ 1,748	$30,876	$ 1,485	79	$125,629	$ 3,233

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December 31, 2017	Less Than 12 Months		12 Months or Longer		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
	(dollars in thousands)						
AVAILABLE FOR SALE							
U.S. Treasury and U.S. government agencies	$80,391	$ 646	$54,769	$ 1,145	27	$135,160	$ 1,791
Mortgage-backed securities, residential	199,387	1,723	157,739	4,040	118	357,126	5,763
Mortgage-backed securities, multifamily	—	—	5,088	63	1	5,088	63
Obligations of states and political subdivisions	9,612	77	12,970	340	39	22,582	417
	$289,390	$ 2,446	$230,566	$ 5,588	185	$519,956	$ 8,034
HELD TO MATURITY							
U.S. government agencies	$15,371	$ 95	$6,720	$ 307	4	$22,091	$ 402
Mortgage-backed securities, residential	26,090	426	19,203	552	25	45,293	978
Mortgage-backed securities, multifamily	1,935	22	—	—	2	1,935	22
Obligations of states and political subdivisions	15,353	56	6,028	132	23	21,381	188
	$58,749	$ 599	$31,951	$ 991	54	$90,700	$ 1,590

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

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

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

Equity securities at fair value

The Company has an equity securities portfolio which consists of investments in other financial institutions for market appreciation purposes, and investments in Community Reinvestment funds. The market value of these investments was $18.4 million and $18.1 million as of March 31, 2018 and December 31, 2017, respectively. Upon implementation of Accounting Standards Update 2016-01 - Financial Instruments ("ASU 2016-01"), the Company made a cumulative adjustment of $2.0 million from other comprehensive income to retained earnings as of January 1, 2018. In the first quarter of 2018, the Company recorded $18,000 in market value loss on equity securities in other income.

As of March 31, 2018, the equity investments in other financial institutions and Community Reinvestment funds had a market value of $5.3 million and $13.1 million, respectively.

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

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The investment funds also include $3.5 million that are primarily invested in community development loans that are guaranteed by the Small Business Administration ("SBA"). Because the funds are primarily guaranteed by the federal government there are minimal changes in market value between accounting periods. These funds can be redeemed with 60 days notice at the net asset value less unpaid management fees with the approval of the fund manager. As of March 31, 2018, the net amortized cost equaled the market value of the investment. There are no unfunded commitments related to these investments.

NOTE 5 – LOANS, LEASES AND OTHER REAL ESTATE

The following sets forth the composition of the Company's loan and lease portfolio:

	March 31, 2018	December 31, 2017
	(in thousands)	
Commercial, secured by real estate	$2,885,997	$2,831,184
Commercial, industrial and other	339,665	340,400
Leases	78,238	75,039
Real estate - residential mortgage	323,054	322,880
Real estate - construction	283,378	264,908
Home equity and consumer	317,720	322,269
Total loans and leases	4,228,052	4,156,680
Less: deferred fees	(4,083)	(3,960)
Loans and leases, net of deferred fees	$4,223,969	$4,152,720

At March 31, 2018 and December 31, 2017, home equity and consumer loans included overdraft deposit balances of $427,000 and $966,000, respectively. At March 31, 2018 and December 31, 2017, the Company had $1.1 billion and $1.1 billion, respectively, in loans pledged for actual and potential borrowings at the Federal Home Loan Bank of New York ("FHLB").

Purchased Credit Impaired Loans

The carrying value of loans acquired in the Pascack Community Bank ("Pascack") acquisition and accounted for in accordance with ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," was $182,000 at March 31, 2018, which was $635,000 less than the balance at the time of acquisition on January 7, 2016. In first quarter 2017, one of the Pascack purchased credit impaired ("PCI") loans totaling $127,000 experienced further credit deterioration and was fully charged off. In the second quarter of 2017, a loan with a net value of $218,000 was fully paid off. The carrying value of loans acquired in the Harmony Bank ("Harmony") acquisition was $516,000 at March 31, 2018 which was $253,000 less than the balance at acquisition date on July 1, 2016. In the second quarter of 2017, a loan with a net value of $247,000 was fully paid off.

The following table presents changes in the accretable yield for PCI loans:

	For the Three Months Ended	
	March 31, 2018	March 31, 2017
	(in thousands)	
Balance, beginning of period	$129	$145
Acquisitions	—	—
Accretion	(44)	(51)
Net reclassification non-accretable difference	28	86
Balance, end of period	$113	$180

Non-Performing Assets and Past Due Loans

The following schedule sets forth certain information regarding the Company’s non-performing assets and its accruing troubled debt restructurings, excluding PCI loans:

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	March 31, 2018	December 31, 2017
	(in thousands)	
Commercial, secured by real estate	$4,732	$ 5,890
Commercial, industrial and other	1,505	184
Leases	250	144
Real estate - residential mortgage	3,045	3,860
Real estate - construction	1,472	1,472
Home equity and consumer	2,341	2,105
Total non-accrual loans and leases	$13,345	$ 13,655
Other real estate and other repossessed assets	1,392	843
TOTAL NON-PERFORMING ASSETS	$14,737	$ 14,498
Troubled debt restructurings, still accruing	$9,526	$ 11,462

Non-accrual loans included $3.8 million and $2.7 million of troubled debt restructurings for the periods ended March 31, 2018 and December 31, 2017, respectively. At March 31, 2018 and December 31, 2017, the Company had $1.6 million and $2.7 million, respectively, in residential mortgages and consumer home equity loans that were in the process of foreclosure.

An age analysis of past due loans, segregated by class of loans as of March 31, 2018 and December 31, 2017, is as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Current	Total Loans and Leases	Recorded Investment Greater than 89 Days and Still Accruing
	(in thousands)						
March 31, 2018							
Commercial, secured by real estate	$7,619	$ 57	$2,174	$9,850	$2,876,147	$2,885,997	$ —
Commercial, industrial and other	650	—	232	882	338,783	339,665	—
Leases	167	808	250	1,225	77,013	78,238	—
Real estate - residential mortgage	3,221	162	2,191	5,574	317,480	323,054	—
Real estate - construction	—	—	1,472	1,472	281,906	283,378	—
Home equity and consumer	2,331	236	1,455	4,022	313,698	317,720	1
	$13,988	$ 1,263	$7,774	$23,025	$4,205,027	$4,228,052	$ 1
December 31, 2017							
Commercial, secured by real estate	$3,663	$ 1,082	$3,817	$8,562	$2,822,622	$2,831,184	$ —
Commercial, industrial and other	80	121	56	257	340,143	340,400	—
Leases	496	139	144	779	74,260	75,039	—
Real estate - residential mortgage	939	908	3,137	4,984	317,896	322,880	—
Real estate - construction	—	—	1,472	1,472	263,436	264,908	—
Home equity and consumer	1,258	310	1,386	2,954	319,315	322,269	200
	$6,436	$ 2,560	$10,012	$19,008	$4,137,672	$4,156,680	$ 200

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Impaired Loans

The Company defines impaired loans as all non-accrual loans and leases with recorded investments of $500,000 or greater. Impaired loans also include all loans that have been modified in troubled debt restructurings. Impaired loans as of March 31, 2018 and December 31, 2017 are as follows:

March 31, 2018	Recorded Investment in Impaired Loans	Contractual Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
	(in thousands)				
Loans without specific allowance:					
Commercial, secured by real estate	$6,342	$ 6,535	$ —	$ 7,799	$ 53
Commercial, industrial and other	1,871	2,869	—	584	5
Leases	—	—	—	—	—
Real estate - residential mortgage	429	444	—	947	4
Real estate - construction	1,471	1,471	—	1,471	—
Home equity and consumer	—	—	—	—	—
Loans with specific allowance:					
Commercial, secured by real estate	7,424	7,767	386	9,035	98
Commercial, industrial and other	236	235	9	235	3
Leases	36	36	16	36	—
Real estate - residential mortgage	771	911	4	772	5
Real estate - construction	—	—	—	—	—
Home equity and consumer	980	1,005	8	975	9
Total:					
Commercial, secured by real estate	$13,766	$ 14,302	$ 386	$ 16,834	$ 151
Commercial, industrial and other	2,107	3,104	9	819	8
Leases	36	36	16	36	—
Real estate - residential mortgage	1,200	1,355	4	1,719	9
Real estate - construction	1,471	1,471	—	1,471	—
Home equity and consumer	980	1,005	8	975	9
	$19,560	$ 21,273	$ 423	$ 21,854	$ 177

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December 31, 2017	Recorded Investment in Impaired Loans	Contractual Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
	(in thousands)				
Loans without specific allowance:					
Commercial, secured by real estate	$12,155	$ 12,497	—	$ 12,774	$ 366
Commercial, industrial and other	618	618	—	618	25
Leases	—	—	—	—	—
Real estate - residential mortgage	963	980	—	996	15
Real estate - construction	1,471	1,471	—	1,471	—
Home equity and consumer	—	—	—	6	—
Loans with specific allowance:					
Commercial, secured by real estate	5,381	5,721	454	5,029	206
Commercial, industrial and other	164	164	9	283	14
Leases	65	65	30	29	—
Real estate - residential mortgage	781	919	4	940	27
Real estate - construction	—	—	—	—	—
Home equity and consumer	993	1,026	8	1,090	52
Total:					
Commercial, secured by real estate	$17,536	$ 18,218	$ 454	$ 17,803	$ 572
Commercial, industrial and other	782	782	9	901	39
Leases	65	65	30	29	—
Real estate - residential mortgage	1,744	1,899	4	1,936	42
Real estate - construction	1,471	1,471	—	1,471	—
Home equity and consumer	993	1,026	8	1,096	52
	$22,591	$ 23,461	$ 505	$ 23,236	$ 705

Interest income recognized on impaired loans was $177,000 and $151,000 for the three months ended March 31, 2018 and 2017, respectively. Interest that would have been accrued on impaired loans during the first three months of 2018 and 2017 had the loans been performing under original terms would have been $307,000 and $345,000, respectively.

Credit Quality Indicators

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

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The following table shows the Company's commercial loan portfolio as of March 31, 2018 and December 31, 2017, by the risk ratings discussed above (in thousands):

March 31, 2018	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Real Estate - Construction
RISK RATING			
1	$ —	$ 362	$ —
2	—	26,755	—
3	75,608	44,973	—
4	882,811	96,031	19,098
5	1,822,829	145,396	253,407
5W - Watch	40,360	9,022	8,292
6 - Other assets especially mentioned	41,753	8,693	—
7 - Substandard	22,636	8,433	2,581
8 - Doubtful	—	—	—
9 - Loss	—	—	—
Total	$ 2,885,997	$ 339,665	$ 283,378

December 31, 2017	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Real Estate - Construction
RISK RATING			
1	$ —	$ 392	$ —
2	—	26,968	—
3	76,824	35,950	—
4	862,537	96,426	15,502
5	1,779,908	150,928	246,806
5W - Watch	47,178	8,779	—
6 - Other assets especially mentioned	40,245	8,670	—
7 - Substandard	24,492	12,287	2,600
8 - Doubtful	—	—	—
9 - Loss	—	—	—
Total	$ 2,831,184	$ 340,400	$ 264,908

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

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Allowance for Loan and Lease Losses

The following table details activity in the allowance for loan and lease losses by portfolio segment for the three months ended March 31, 2018 and 2017:

Three Months Ended March 31, 2018	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Leases	Real Estate-Residential Mortgage	Real Estate-Construction	Home Equity and Consumer	Total
	(in thousands)						
Beginning Balance	$25,704	$ 2,313	$630	$ 1,557	$ 2,731	$ 2,520	$35,455
Charge-offs	(22)	(1,012)	(23)	(93)	—	(100)	(1,250)
Recoveries	31	20	2	2	5	95	155
Provision	104	447	433	123	196	(19)	1,284
Ending Balance	$25,817	$ 1,768	$1,042	$ 1,589	$ 2,932	$ 2,496	$35,644

Three Months Ended March 31, 2017	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Leases	Real Estate-Residential Mortgage	Real Estate-Construction	Home Equity and Consumer	Total
	(in thousands)						
Beginning Balance	$21,223	$ 1,723	$548	$ 1,964	$ 2,352	$ 3,435	$31,245
Charge-offs	(220)	(163)	(43)	(141)	(609)	(184)	(1,360)
Recoveries	219	95	4	—	15	154	487
Provision	861	137	(7)	2	620	(395)	1,218
Ending Balance	$22,083	$ 1,792	$502	$ 1,825	$ 2,378	$ 3,010	$31,590

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

March 31, 2018	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Leases	Real Estate-Residential Mortgage	Real Estate-Construction	Home Equity and Consumer	Total
	(in thousands)						
Ending Balance: Individually evaluated for impairment	$13,766	$ 2,107	$36	$ 1,200	$ 1,471	$980	$19,560
Ending Balance: Collectively evaluated for impairment	2,871,534	337,558	78,202	321,854	281,907	316,739	4,207,794
Ending Balance: Loans acquired with deteriorated credit quality	697	—	—	—	—	1	698
Ending Balance (1)	$2,885,997	$ 339,665	$78,238	$ 323,054	$ 283,378	$317,720	$4,228,052

December 31, 2017	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Leases	Real Estate-Residential Mortgage	Real Estate-Construction	Home Equity and Consumer	Total
	(in thousands)						
Ending Balance: Individually evaluated for impairment	$17,536	$ 782	$65	$ 1,744	$ 1,471	$993	$22,591
	2,812,941	339,618	74,974	321,136	263,437	321,273	4,133,379

Ending Balance: Collectively evaluated for impairment							
Ending balance: Loans acquired with deteriorated credit quality	707	—	—	—	—	3	710
Ending Balance (1)	$2,831,184	$ 340,400	$75,039	$ 322,880	$ 264,908	$322,269	$4,156,680

(1) Excludes deferred fees

The allowance for loan and lease losses is summarized by portfolio segment and impairment classification as follows:

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March 31, 2018	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Leases	Real Estate-Residential Mortgage	Real Estate-Construction	Home Equity and Consumer	Total
	(in thousands)						
Ending Balance: Individually evaluated for impairment	$386	$ 9	$16	$ 4	$ —	$ 8	$423
Ending Balance: Collectively evaluated for impairment	25,431	1,759	1,026	1,585	2,932	2,488	35,221
Ending Balance	$25,817	$ 1,768	$1,042	$ 1,589	$ 2,932	$ 2,496	$35,644

December 31, 2017	Commercial, Secured by Real Estate	Commercial, Industrial and Other	Leases	Real Estate-Residential Mortgage	Real Estate-Construction	Home Equity and Consumer	Total
	(in thousands)						
Ending Balance: Individually evaluated for impairment	$454	$ 9	$ 30	$ 4	$ —	$ 8	$505
Ending Balance: Collectively evaluated for impairment	25,250	2,304	600	1,553	2,731	2,512	34,950
Ending Balance	$25,704	$ 2,313	$ 630	$ 1,557	$ 2,731	$ 2,520	$35,455

Lakeland also maintains a reserve for unfunded lending commitments which is included in other liabilities. This reserve was $2.5 million for each of the periods ended March 31, 2018 and December 31, 2017. The Company analyzes the adequacy of the reserve for unfunded lending commitments quarterly.

Troubled Debt Restructurings

Loans are classified as troubled debt restructured loans in cases where borrowers experience financial difficulties and Lakeland makes certain concessionary modifications to contractual terms. Restructured loans typically involve a modification of terms such as a reduction of the stated interest rate, a moratorium of principal payments and/or an extension of the maturity date at a stated interest rate lower than the current market rate of a new loan with similar risk. The Company considers the potential losses on these loans as well as the remainder of its impaired loans while considering the adequacy of the allowance for loan and lease losses.

The following table summarizes loans that have been restructured during the three months ended March 31, 2018 and 2017:

	For the Three Months Ended March 31, 2018			For the Three Months Ended March 31, 2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(dollars in thousands)					
Commercial, secured by real estate	2	$ 1,657	$ 1,657	2	$ 2,879	$ 2,879
	2	$ 1,657	$ 1,657	2	$ 2,879	$ 2,879

The following table summarizes as of March 31, 2018 and 2017, loans that were restructured within the previous twelve months that have subsequently defaulted:

	March 31, 2018		March 31, 2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(dollars in thousands)			
Real estate - residential mortgage	—	$ —	1	$ 226
	—	$ —	1	$ 226

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Other Real Estate and Other Repossessed Assets

At March 31, 2018, the Company had other real estate owned and other repossessed assets of $1.4 million and $0, respectively. At December 31, 2017, the Company had other real estate owned and other repossessed assets of $843,000 and $0, respectively. Included in other real estate owned was residential property acquired as a result of foreclosure proceedings totaling $1.1 million and $843,000 that the Company held at the periods ended March 31, 2018 and December 31, 2017, respectively.

NOTE 6 – DERIVATIVES

Lakeland is a party to interest rate derivatives that are not designated as hedging instruments. Under a program, Lakeland executes interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that Lakeland executes with a third party, such that Lakeland minimizes its net risk exposure resulting from such transactions. Because the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. The changes in the fair value of the swaps offset each other, except for the credit risk of the counterparties, which is determined by taking into consideration the risk rating, probability of default and loss given default for all counterparties. Lakeland had $500,000 in available for sale securities pledged for collateral on its interest rate swaps with the financial institution at each of March 31, 2018 and December 31, 2017.

In June 2016, the Company entered into two cash flow hedges in order to hedge the variable cash outflows associated with its subordinated debentures. The notional value of these hedges was $30.0 million. The Company's objectives in using the cash flow hedge are to add stability to interest expense and to manage its exposure to interest rate movements. The Company used interest rate swaps designated as cash flow hedges which involved the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. In these particular hedges the Company is paying a third party an average of 1.10% in exchange for a payment at 3 month LIBOR. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2018, the Company did not record any hedge ineffectiveness. The Company recognized $43,000 and $8,000 of accumulated other comprehensive income that was reclassified into interest expense for the first three months of 2018 and 2017, respectively.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's debt. During the next twelve months, the Company estimates that $364,000 will be reclassified as a decrease to interest expense should the rate environment remain the same.

The following table presents summary information regarding these derivatives for the periods presented (dollars in thousands):

March 31, 2018	Notional Amount	Average Maturity (Years)	Weighted Average Fixed Rate		Weighted Average Variable Rate	Fair Value
Classified in Other Assets:						
3rd Party interest rate swaps	$175,920	9.0	4.20	%	1 Mo. LIBOR + 2.17%	$7,016
Customer interest rate swaps	43,918	13.9	5.27	%	1 Mo. LIBOR + 2.32%	796
Interest rate swap (cash flow hedge)	30,000	3.3	1.10	%	3 Mo. LIBOR	1,449
Classified in Other Liabilities:						
Customer interest rate swaps	$175,920	9.0	4.20	%	1 Mo. LIBOR + 2.17%	$(7,016)
3rd Party interest rate swaps	43,918	13.9	5.27	%	1 Mo. LIBOR + 2.32%	(796)

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December 31, 2017	Notional Amount	Average Maturity (Years)	Weighted Average Fixed Rate		Weighted Average Variable Rate	Fair Value
Classified in Other Assets:						
3rd Party interest rate swaps	$110,076	8.8	3.87	%	1 Mo. LIBOR + 2.11%	$3,634
Customer interest rate swaps	$82,760	11.5	4.74	%	1 Mo. LIBOR + 2.21%	$1,831
Interest rate swap (cash flow hedge)	$30,000	3.5	1.10	%	3 Mo. LIBOR	$1,090
Classified in Other Liabilities:						
Customer interest rate swaps	110,076	8.8	3.87	%	1 Mo. LIBOR + 2.11%	(3,634)
3rd party interest rate swaps	82,760	11.5	4.74	%	1 Mo. LIBOR + 2.21%	(1,831)

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

The Company had goodwill of $136.4 million for both of the periods ended March 31, 2018 and December 31, 2017. The Company reviews its goodwill and intangible assets annually, on November 30, or more frequently if conditions warrant, for impairment. In testing goodwill for impairment, the Company compares the estimated fair value of its reporting unit to its carrying amount, including goodwill. The Company has determined that it has one reporting unit, Community Banking.

The Company had core deposit intangible of $2.2 million and $2.4 million for the periods ended March 31, 2018 and December 31, 2017, respectively. The estimated future amortization expense for the remainder of 2018 and for each of the succeeding five years ended December 31 is as follows (dollars in thousands):

For the Year Ended	
2018	$437
2019	505
2020	415
2021	326
2022	236
2023	147

NOTE 8 – BORROWINGS

Repurchase Agreements

At March 31, 2018, the Company had federal funds purchased and securities sold under agreements to repurchase of $101.6 million and $24.9 million, respectively. The securities sold under agreements to repurchase are overnight sweep arrangement accounts with our customers. The Company also had $20.0 million in long-term securities sold under agreements to repurchase included in other borrowings which mature within 1 year. As of March 31, 2018, the Company had $58.2 million in mortgage backed securities pledged for its securities sold under agreements to repurchase.

At times the market values of securities collateralizing our securities sold under agreements to repurchase may decline due to changes in interest rates and may necessitate our lenders to issue a “margin call” which requires Lakeland to pledge additional collateral to meet that margin call.

Prepayment of Borrowings

In the first quarter of 2017, the Company repaid an aggregate of $20.0 million in long-term securities sold under agreements to repurchase and recorded $2.2 million in long-term debt prepayment fees. The Company also repaid an aggregate of $34.0 million in borrowings from the Federal Home Loan Bank of New York and recorded $638,000 in long-term debt prepayment fees.

NOTE 9 – SHARE-BASED COMPENSATION

The Company grants restricted stock, restricted stock units (“RSUs”) and stock options under the 2009 Equity Compensation Program. Share-based compensation expense of $1.0 million and $1.2 million was recognized for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, there was unrecognized compensation cost of $169,000

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related to unvested restricted stock that is expected to be recognized over a weighted average period of approximately 0.80 years. Unrecognized compensation expense related to RSUs was approximately $3.6 million as of March 31, 2018, and that cost is expected to be recognized over a period of 1.86 years. There was no unrecognized compensation expense related to unvested stock options as of March 31, 2018.

In the first three months of 2018, the Company granted 10,945 shares of restricted stock to non-employee directors at a grant date fair value of $20.55 per share under the 2009 Equity Compensation Program. The restricted stock vests one year from the date it was granted. Compensation expense on this restricted stock is expected to be $225,000 over a one year period. In the first three months of 2017, the Company granted 13,176 shares of restricted stock to non-employee directors at a grant date fair value of $18.20 per share under the 2009 Equity Compensation Program. The restricted stock vested one year from the date it was granted. Compensation expense on this restricted stock was $240,000 over a one year period.

The following is a summary of the Company’s restricted stock activity during the three months ended March 31, 2018:

	Number of Shares	Weighted Average Price
Outstanding, January 1, 2018	22,982	$ 14.44
Granted	10,945	20.55
Vested	(22,856)	14.46
Forfeited	—	—
Outstanding, March 31, 2018	11,071	$ 20.43

In the first three months of 2018, the Company granted 146,233 RSUs to certain officers at a weighted average grant date fair value of $19.11 per share under the Company’s 2009 Equity Compensation Program. These units vest within a range of two to three years. A portion of these RSUs will vest subject to certain performance conditions in the restricted stock unit agreement. There are also certain provisions in the compensation program which state that if a recipient of the RSUs reaches a certain age and years of service, the person has effectively earned a portion of the RSUs at that time. Compensation expense on the restricted stock units issued in the first three months of 2018 is expected to average approximately $932,000 per year over a three year period. In the first three months of 2017, the Company granted 115,923 RSUs at a weighted average grant date fair value of $19.97 per share under the Company’s 2009 Equity Compensation Program. Compensation expense on these restricted stock units is expected to average approximately $772,000 per year over a three year period.

The following is a summary of the Company’s RSU activity during the three months ended March 31, 2018:

	Number of Shares	Weighted Average Price
Outstanding, January 1, 2018	267,732	$ 13.93
Granted	146,233	19.11
Vested	(116,921)	13.80
Forfeited	(344)	17.29
Outstanding, March 31, 2018	296,700	$ 16.53

There were no grants of stock options in the first three months of 2018 or 2017. Option activity under the Company’s stock option plans is as follows:

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	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding, January 1, 2018	102,216	$ 8.49	4.27	$1,101,806
Granted	—	—		
Exercised	(26,250)	9.44		
Forfeited	—	—		
Expired	—	—		
Outstanding, March 31, 2018	75,966	$ 8.16	2.88	$889,821
Options exercisable at March 31, 2018	75,966	$ 8.16	2.88	$889,821

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

There were 26,250 and 30,387 stock options exercised during the first three months of 2018 and 2017, respectively. The aggregate intrinsic value of stock options exercised during the three months ended March 31, 2018 and 2017 was $297,000 and $304,000, respectively. Exercise of stock options during the first three months of 2018 and 2017, resulted in cash receipts of $248,000 and $300,000, respectively.

NOTE 10 – COMPREHENSIVE INCOME

The components of other comprehensive income (loss) are as follows:

	March 31, 2018			March 31, 2017		
For the quarter ended:	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(in thousands)			(in thousands)		
Net unrealized gains (losses) on available for sale securities						
Net unrealized holding (losses) gains arising during period	$(7,502)	$ 1,770	$(5,732)	$1,184	$ (450)	$ 734
Reclassification adjustment for net gains arising during the period	—	—	—	(2,539)	890	(1,649)
Net unrealized losses	(7,502)	1,770	(5,732)	(1,355)	440	(915)
Unrealized gains on derivatives	358	(75)	283	21	(7)	14
Other comprehensive loss, net	$(7,144)	$ 1,695	$(5,449)	$(1,334)	$ 433	$ (901)

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The following table shows the changes in the balances of each of the components of other comprehensive income for the periods presented, net of tax (in thousands):

	For the Three Months Ended March 31, 2018				For the Three Months Ended March 31, 2017			
	Unrealized Losses on Available for Sale Securities	Unrealized Gains on Derivatives	Pension Items	Total	Unrealized Gains (Losses) on Available for Sale Securities	Unrealized Gains on Derivatives	Pension Items	Total
Beginning balance	$(3,232)	$ 862	$ 21	$(2,349)	$(117)	$ 672	$ 38	$593
Adjustment for implementation of ASU 2016-01	(2,043)	—	—	(2,043)	—	—	—	—
Adjusted beginning balance	(5,275)	862	21	(4,392)	(117)	672	38	593
Other comprehensive income (loss) before classifications	(5,732)	283	—	(5,449)	734	14	—	748
Amounts reclassified from accumulated other comprehensive income	—	—	—	—	(1,649)	—	—	(1,649)
Net current period other comprehensive income (loss)	(5,732)	283	—	(5,449)	(915)	14	—	(901)
Ending balance	$(11,007)	$ 1,145	$ 21	$(9,841)	$(1,032)	686	$ 38	$(308)

NOTE 11 – ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

Fair Value Measurement

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

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

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

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

The Company’s assets that are measured at fair value on a recurring basis are it’s available for sale investment securities and its equity securities. The Company obtains fair values on its securities using information from a third party servicer. If quoted prices for securities are available in an active market, those securities are classified as Level 1 securities. The Company has U.S. Treasury Notes and certain equity securities that are classified as Level 1 securities. Level 2 securities were primarily comprised of U.S. Agency bonds, residential mortgage-backed securities, obligations of state and political subdivisions and corporate securities. Fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, issuer spreads, bids and offers. On a quarterly basis, the Company reviews the pricing information received from the Company’s third party pricing service. This review includes a comparison to non-binding third-party quotes.

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The fair values of derivatives are based on valuation models from a third party using current market terms (including interest rates and fees), the remaining terms of the agreements and the credit worthiness of the counter party as of the measurement date (Level 2).

The following table sets forth the Company's financial assets that were accounted for at fair value on a recurring basis as of the periods presented by level within the fair value hierarchy. During the three months ended March 31, 2018, the Company did not make any transfers between any levels within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	(in thousands)			
March 31, 2018				
Assets:				
Investment securities, available for sale				
U.S. Treasury and government agencies	$5,138	$ 139,562	$ —	$144,700
Mortgage-backed securities	—	423,461	—	423,461
Obligations of states and political subdivisions	—	49,987	—	49,987
Other debt securities	—	5,094	—	5,094
Total securities available for sale	5,138	618,104	—	623,242
Equity securities, at fair value	5,322	13,075	—	18,397
Derivative assets	—	9,261	—	9,261
Total Assets	$10,460	$ 640,440	$ —	$650,900
Liabilities:				
Derivative liabilities	$—	$ 7,812	$ —	$7,812
Total Liabilities	$—	$ 7,812	$ —	$7,812
December 31, 2017				
Assets:				
Investment securities, available for sale				
U.S. Treasury and government agencies	$5,415	$ 141,840	$ —	$147,255
Mortgage-backed securities	—	424,331	—	424,331
Obligations of states and political subdivisions	—	51,320	—	51,320
Other debt securities	—	5,140	—	5,140
Total securities available for sale	5,415	622,631	—	628,046
Equity securities, at fair value	5,147	12,942	—	18,089
Derivative assets	—	6,555	—	6,555
Total Assets	$10,562	$ 642,128	$ —	$652,690
Liabilities:				
Derivative liabilities	$—	$ 5,465	$ —	$5,465
Total Liabilities	$—	$ 5,465	$ —	$5,465

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

	(Level 1)	(Level 2)	(Level 3)	Total Fair Value
		(in thousands)		
March 31, 2018				
Assets:				
Impaired loans and leases	$ —	$ —	$ 19,560	$ 19,560
Loans held for sale	—	—	—	—
Other real estate owned and other repossessed assets	—	—	1,392	1,392
December 31, 2017				
Assets:				
Impaired loans and leases	$ —	$ —	$ 22,591	$ 22,591
Loans held for sale	—	456	—	456
Other real estate owned and other repossessed assets	—	—	843	843

Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value of the underlying collateral. Because most of Lakeland's impaired loans are collateral dependent, fair value is generally measured based on the value of the collateral, less estimated costs to sell, securing these loans and leases and is classified at a level 3 in the fair value hierarchy. Collateral may be real estate, accounts receivable, inventory, equipment and/or other business assets. The value of real estate is assessed based on appraisals by qualified third party licensed appraisers. The appraisers may use the sales comparison approach, the cost approach and/or the income approach to value the collateral using discount rates (with ranges of 5-11%) or capitalization rates (with ranges of 5-10%) to evaluate the property. The value of the equipment may be determined by an appraiser, if significant, inquiry through a recognized valuation resource, or by the value on the borrower's financial statements. Field examiner reviews on business assets may be conducted based on the loan exposure and reliance on this type of collateral. Appraised and reported values may be adjusted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Loans that are not collateral dependent are evaluated based on a discounted cash flow method. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

The Company has a held for sale loan portfolio that consists of residential mortgages that are being sold in the secondary market. The Company records these mortgages at the lower of cost or market value. Fair value is generally determined by the value of purchase commitments.

Other real estate owned ("OREO") and other repossessed assets, representing property acquired through foreclosure, are recorded at fair value less estimated disposal costs of the acquired property on the date of acquisition and thereafter re-measured and carried at lower of cost or fair market value. Fair value on other real estate owned is based on the appraised value of the collateral using the sales comparison approach and/or the income approach with discount rates or capitalization rates similar to those used in impaired loan valuation. The fair value of other repossessed assets is estimated by inquiry through recognized valuation resources.

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

Fair Value of Certain Financial Instruments

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. There may not be reasonable comparability between

institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.
The estimation methodologies used, the estimated fair values, and recorded book balances at March 31, 2018 and December 31, 2017 are outlined below.

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

The fair value of investment securities held to maturity was measured using information from the same third-party servicer used for investment securities available for sale using the same methodologies discussed above. Investment securities held to maturity includes $7.2 million in short-term municipal bond anticipation notes and $1.0 million in subordinated debt that are non-rated and do not have an active secondary market or information readily available on standard financial systems. As a result, the securities are classified as Level 3 securities. Management performs a credit analysis before investing in these securities.

FHLB stock is an equity interest that can be sold to the issuing FHLB, to other Federal Home Loan Banks, or to other member banks at its par value. Because ownership of these securities is restricted, they do not have a readily determinable fair value. As such, the Company’s FHLB stock is recorded at cost or par value and is evaluated for impairment each reporting period by considering the ultimate recoverability of the investment rather than temporary declines in value. The Company’s evaluation primarily includes an evaluation of liquidity, capitalization, operating performance, commitments, and regulatory or legislative events.

The net loan portfolio at March 31, 2018 has been valued using an exit price approach incorporating discounts for credit and liquidity. This is not comparable with the fair values used for December 31, 2017, which are based on entrance prices. For December 31, 2017, the loan portfolio was valued using a present value discounted cash flow where market prices are not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk.

For fixed maturity certificates of deposit, fair value is estimated based on the present value of discounted cash flows using the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

The fair value of long-term debt is based upon the discounted value of contractual cash flows. The Company estimates the discount rate using the rates currently offered for similar borrowing arrangements. The fair value of subordinated debentures is based on bid/ask prices from brokers for similar types of instruments.

The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. The fair value of commitments to extend credit and standby letters of credit are deemed immaterial.

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The following table presents the carrying values, fair values and placement in the fair value hierarchy of the Company’s financial instruments as of March 31, 2018 and December 31, 2017:

	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)				
March 31, 2018					
Financial Assets:					
Investment securities held to maturity	$152,127	$149,213	$ —	$141,013	$ 8,200
Federal Home Loan Bank and other membership bank stocks	11,888	11,888	—	11,888	—
Loans and leases, net	4,188,325	4,163,855	—	—	4,163,855
Financial Liabilities:					