

Stonier Capstone Assignment

Crisis and Readiness Diagnostic Simulations (C.A.R.D.S.)
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Lakeland Bank

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Executive Summary:

Lakeland Bank is the sixth largest bank owned and operated in the state of New Jersey with 5.7% of market share. The Bank was founded in September 1969 by local businessmen to meet the needs of other local businessmen and the communities in which they were located. One of the cornerstones of Lakeland Bank at its formation was to be recognized by its clients as a local Community Bank with ties to the communities in which it serves. This holds true to this day as referenced by its reputation in the community by customers and peers alike.

Currently the organization operates 51 branch locations throughout New Jersey with one location in New York State with Commercial Loan Production Offices located in key market areas to support the needs of business development. As of September 30, 2020 Lakeland accounts for \$7.5 billion in total assets.

Local, regional, national and international events over the past twelve months have opened discussions for the need to reevaluate and update contingency planning, particularly around medium- and longer-term events. The objective is to have contingency plans in place to allow for seamless operations on a longer-term basis for hardware deployment, associate communication and deployment, systems infrastructure readiness, facilities readiness, etc.

This paper will provide an overview of Lakeland Bank's current contingency planning, new scenario modeling programs, and a recommendation to move forward with the investment and implementation of the Crisis and Readiness Diagnostic Simulations (C. A. R. D. S.) program to add to and enhance Lakeland's existing contingency planning program.

The following positive results are expected upon implementation:

- Preparedness ahead of crisis situations defined by modeling across multiple lines of business
- Seamless customer experience with little to no interruption in service thus resulting in improved overall business results
- Improved communications from business units to Executive Management and Board of Directors
- Cost and time savings based upon proactive planning versus reactive needs
- Improved employee engagement and morale based upon clearer communication planning

This Capstone will demonstrate how the Crisis and Readiness Diagnostics Simulations program can help Lakeland become more effective with contingency planning by being more proactive in the approach. This will be viewed favorably by the Bank’s Executive Team, Board of Directors, Risk Management Group, employees and clients alike. The Capstone covers the history of the organization, challenges faced by the current process and financial and non-financial impacts that may occur by implementation of the program.

NJ Deposit Market Share⁽¹⁾

Rank	Institution	Number of Branches	in Market (\$mm)	Market Share (%)
1	Valley National Bancorp	166	18,121	20.7
2	Investors Bancorp Inc.	112	15,605	17.8
3	OceanFirst Financial Corp.	79	7,192	8.2
4	Provident Financial Services Inc.	81	6,686	7.6
5	Columbia Financial Inc. (MHC)	61	5,663	6.5
6	Lakeland Bancorp Inc.	51	5,029	5.7
7	ConnectOne Bancorp Inc.	29	4,809	5.5
8	Keamy Financial Corp.	52	4,174	4.8
9	Peapack-Gladstone Financial Corp.	20	4,104	4.7
10	Spencer Savings Bank SLA	24	2,112	2.4
Top 10 New Jersey Banks		675	73,495	83.9
Total NJ Banks in Market		915	87,621	100.0

(1) Banks Headquartered in New Jersey
Source: S&P Global as of June 2019.



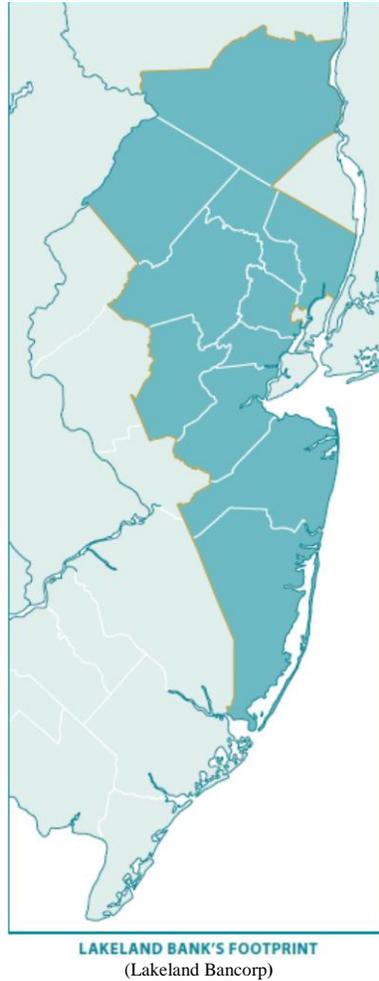
Introduction:

As with many Financial Institutions Lakeland Bank (“Lakeland”) has had contingency planning in place for many years to help maintain and sustain operations and support its client base during times of potential crisis. Potential crisis situations include weather related issues, perceived and real physical security threats as well as other shorter term events which can impede access to some or all facilities. These plans have historically been more reactionary versus proactive or anticipatory of future events.

The intent of this paper is to develop a program that is predictive in nature to allow Lakeland to be proactive on an ongoing basis to help plan for events that may be short term or longer term such as what has been experienced with the COVID-19 Pandemic.

In light of the recent events surrounding the COVID-19 Pandemic, it has become apparent to Lakeland’s management and Executive Management teams that this type of program should be developed and implemented for the Bank. Measurements of success will need to be established for the program including the ability to identify Lakeland team members to regularly analyze key external factors such as Social, Technological, Economic, Political, and Health, all on Local, Regional, National and International levels along with internal factors at Lakeland to allow Executive Management to be ready to implement and modify Crisis Plans for both short and long term events on an ongoing basis.

Background:



Lakeland Bank celebrated its 50th anniversary in 2019. With over \$7.4 billion in assets, Lakeland Bank operates in Bergen, Essex, Morris, Ocean, Passaic, Somerset, Sussex and Union Counties, New Jersey as well as Highland Mills, New York. To support the commercial lending needs of its clients, Lakeland operates Commercial Lending Centers in Bernardsville, Jackson, Montville, Teaneck, and Waldwick, New Jersey as well as Highland Mills, New York. Lakeland Bank also has a Commercial Loan Production Office serving Middlesex and Monmouth Counties in New Jersey.

Lakeland Bank offers a full suite of both commercial and consumer products and services.

LAKELAND BANK OFFICES

NEW JERSEY

BERGEN

Carlstadt
325 Garden Street

Englewood
42 North Dean Street

Hackensack-Main Street
25 Main Street

Hackensack-Polifly Road
9 Polifly Road

Park Ridge
165 Kinderkamack Road

Rochelle Park
1 East Passaic Street

Teaneck
417 Cedar Lane

Waldwick
64 Crescent Avenue

Westwood
21 Jefferson Avenue

Wyckoff
652 Wyckoff Avenue

ESSEX

Caldwell
49-53 Bloomfield Avenue

Nutley
356 Franklin Avenue

West Caldwell
995 Bloomfield Avenue

MORRIS

Boonton
321 West Main Street

Butler
1410 Route 23 North

Butler-Carey Avenue
6 Carey Avenue

Denville
55 Broadway

Madison
265 Main Street

Mendham
106 East Main Street, Suite A

Milton
5729 Berkshire Valley Road

Montville
166 Changebridge Road

Morristown
151 South Street

Pompton Plains
901 Route 23 South

Pompton Plains-Cedar Crest Village
1 Cedar Crest Drive

Pompton Plains-Woodland Commons
1 Woodland Commons

Wharton
350 North Main Street

OCEAN

Jackson
2120 West County Line Road

Lakewood
500 River Avenue

Toms River
104 Route 37 East

PASSAIC

Bloomington
28 Main Street

Clifton
11 Ackerman Avenue

Little Falls
86-88 Main Street

Newfoundland
2717 Route 23 South

Ringwood
45 Skyline Drive

Totowa
650 Union Blvd # 1

Wanaque
103 Ringwood Avenue

Wayne
231 Black Oak Ridge Road

West Milford
1527 Union Valley Road

SOMERSET

Bernardsville
155 Morristown Road

SUSSEX

Andover
615 Route 206 North

Branchville Downtown
3 Broad Street

Franklin
25 Route 23 South

Fredon
395 Route 94 North

Lafayette
37 Route 15 South

Newton-Hampton
11 Hampton House Road

Sparta
7 Town Center Drive

Stanhope
143 Route 183 North

Wantage
455 Route 23 North

Vernon
529 Route 515 South, Suite 101

UNION

Summit
510 Morris Avenue

NEW YORK

ORANGE

Highland Mills
556 State Route 32 North

REGIONAL LOAN OFFICES

Bernardsville
155 Morristown Road

Denville
4 Second Avenue, Suite 204

Highland Mills, NY
556 State Route 32 North

Jackson
2120 West County Line Road

Montville
166 Changebridge Road

Oak Ridge
250 Oak Ridge Road

Teaneck
417 Cedar Lane

Totowa
650 Union Blvd # 1

Corporate Headquarters
250 Oak Ridge Road
Oak Ridge, NJ 07438

Commercial Real Estate Office
64 Crescent Avenue
Waldwick, NJ 07463

Loan Production Office
485 Route 1 South
Iselin, NJ 08830

Milton Annex
5736 Berkshire Valley Road
Oak Ridge, NJ 07438

Milton Operations & Training Center
5716 Berkshire Valley Road
P.O. Box 326
Oak Ridge, NJ 07438

Demographic Footprint:

Lakeland's demographic footprint encompasses a large area of the state of New Jersey and a small segment of New York. This area is roughly one hundred and fifty miles from end to end.

The Bank's footprint is currently broken into three Regions and one Market:

- Northern Region – Operating office in Sussex and Morris Counties, New Jersey
- Southern Region – Spreading through Essex, Morris, Passaic, Somerset & Union Counties, New Jersey
- Eastern Region – Touching Bergen, Essex, Passaic Counties, New Jersey as well as Highland Mills, New York
- Ocean Market – Operating in Ocean County, New Jersey

Each Region/Market has its own overall demographic makeup.

Demographic Footprint:

Northern Region

The Northern Region was the birthplace of Lakeland Bank and many of the founders and their families are from this area. Overall the Northern Region is number one in its market with 17.49% (combined counties) Deposit Market Share. There are roughly forty banking locations that operate in Sussex County (the Northern Region's footprint); Lakeland operates eleven of those branches. Lakeland holds the number one market share in this area with 31.73%; its closest competitor is SB One Bank with 22.54%. There may be opportunity for growth in this area as well given SB One's recent merger with Provident Bank which is anticipated to negatively impact their footings in this market. Lakeland has increased overall market share in the Northern Region from 2018 to 34.65%.

In general the Northern Region is fairly rural with average home prices among the lowest in the state at \$295,500. Interestingly, the per capita income is among the highest in New Jersey at \$91,807. The apparent disconnect between income and home prices have been attributed to a slow rebound from the housing crisis, geographic location and negative population growth over the past several years in the Northern Region.

Commercial and small business opportunities are limited due to the saturation of market that already exists and the lack of population expansion

Demographic Footprint:

Southern Region

Lakeland ranks seventh in overall deposits of the forty-four Financial Institutions operating in the Southern Region with 4.35% of the Deposit Market Share. Each office in the Southern Region has an average client base that ranges from blue collar workers to self-employed professionals to CPA's/Attorneys and other professional service providers.

The per capita income in the Southern Region ranges from \$57,514 to \$110,969. This runs the spectrum from low to high within the overall state range per the latest Census reporting.

Average home prices in the Southern Region range from a low of \$412,800 to a high of \$451,200 which outpaces the state average of \$334,900. Population growth forecasts also are promising for the majority of the Southern Region as well.

There is a wide range of small to mid-market business opportunities available in the Southern Region as well. To support these efforts, three of the Commercial Lending Offices are located within the Southern Region.

Demographic Footprint:

Eastern Region

The Eastern Region ranks number thirteenth in overall deposits of the out of the sixty Financial Institutions operating in the Eastern region with 2.66% of the Deposit Market Share and is by far in the most densely populated area of the franchise. The Eastern Region also has the most competitor banks and is home to the most culturally diverse client base. Lakeland continued to expand in this area as evidence by the opening of a DE Nova branch in early 2019 (Clifton, NJ) which has been successful in reaching a new client base for Lakeland.

The client base for the Eastern Region is similar to that of the Southern Region as it runs the spectrum from blue collar, self-employed small business owner, to professional, and centers of influence.

Per capita income ranges \$57,514 to \$91,807, with average home prices ranging from \$412,800 - \$451,200. Projections for population expansion vary from county to county within the Eastern Region. It is forecasted that Passaic County may experience a slight decrease in population growth while Essex and Bergen Counties will both continue to see expansion.

This area has a great deal of Business Opportunities; Lakeland has four Commercial Lending Offices within the Eastern Region.

Demographic Footprint:

Ocean Market

The Ocean Market (Lakeland defines this as a Market v Region based upon the presence of only three Branches) is ranked eighth in its market out of twenty-one with 4.80% of Market Share.

The Market is a mix of Seasonal Businesses (Summer/Shore Vacation destination), Senior Citizen Communities as well as a large segment of Hasidic Jewish clients in one of the three offices.

The per capita income is \$65,771 and the average home price is \$295,500. The client base ranges from retired Senior Citizen, Small Business Owner to Professionals.

Population expansion is the greatest within this county for the entire organization with a projection of 1% growth. This does not necessarily translate however to where the branches are physically located within the area for Lakeland.

There are good opportunities for Business acquisition in this area. Lakeland Bank has one Commercial Lending Office located in Jackson, New Jersey as well as a Loan Production Office located in Iselin, New Jersey that although located in adjacent Monmouth County, provides opportunity for this Market.

Competitive Dynamic:

Primary Competitors:

An analysis shows that Lakeland's competitors include various National, Regional and Community Banks. Financial Institutions recognized as primary competitors operating Branch locations throughout Lakeland's footprint include:

- Bank of America (16.39%), TD (12.23%), Wells Fargo 10.66%), PNC (8.77%), Chase (6.96%), Valley Bank (5.30%), Investors (4.56%), Santander (3.06%), OceansFirst (2.10%), and Provident (1.96%)

The competitors with the most impact on the Eastern and Southern Regions are Kearney Financial and HSBC. First Hope Bank and SB One Bank are viewed as the greatest competition for the Southern and Northern Regions.

Differentiation:

Lakeland Bank prides itself on best in class customer service delivery.

Lakeland has received numerous recognitions over the past several years including:

- Forbes – 2020 & 2019 Best In State Banks
- NJBiz – 2019 Fast50 – Dynamic Growth of New Jersey Companies
- Forbes – 2014 & 2016 – Top 50 Most Trust Worthy Companies in America
- NJ Herald – Readers Choice - Best Bank in Sussex County 15 Consecutive years 2006 – 2020

In addition, despite the growth that Lakeland has experienced in the past several years, the Bank is still recognized by its client base and peers as a local Community Bank with localized leadership, decision making and a knowledge and understanding of the areas in which they serve.

This is reinforced by the Marketing efforts that Lakeland generates on an ongoing basis.

An example of this localized knowledge and understanding of the areas served includes the following for a local business owner that was interviewed:

He was thankful for the education that a Lakeland Bank Business Banking Officer provided him several months ago with regards to a Commercial Property purchase he was interested in. Although he was able to have been qualified to purchase the building he was a current tenant in, the margins were very narrow. If there were two occupancies, he would be operating in the red.

Flash forward – Another purchaser now owns the property, and there are now three vacancies in the building. The local business owner is thrilled with Lakeland Bank for keeping him in the green and is sharing his experience with all of his clients.

Lakeland gives back to each community in which they serve. Each year Lakeland holds a Charity Golf outing. The proceeds are given to local graduating seniors selected by the school's guidance department from each High School in the town/city where Lakeland Bank is located.

This event is run by the Lakeland staff and is promoted in each branch location. Donations are raised by individual clients, small business and corporate customers. In 2019, this program generated over \$200,000 in donations and provided 114 students with scholarships.

Other Competitors:

Credit Unions are not a large competitive factor for Lakeland Bank as a whole. Although there are many disbursed throughout the footprint the management does not view them as a major competitor at this time. To keep abreast of what is occurring in the market, information related to Credit Unions is reviewed regularly and discussed at Executive Management meetings and ALCO Meetings as warranted.

Non-traditional banks such as Ally Bank and Discover Bank are viewed as a threat for a younger client base, however, Lakeland Bank has embarked on a “Digital Strategy” that over a 3-5 year period is expected to combat some of the non-traditional banking threats. Lakeland has also found that although clients may initially opt for these digital banks, they do reach out for the personal touch for more complex needs such as financial planning and larger purchases (home buying etc.). Existing customers tend to be a great referral source for this.

Business on-line lending firms such as Kabbage and Lendingtree on the surface appear to be competition to Lakeland’s Small Business and Mid-Market lending, but rates, expertise and customer loyalty seem to win out for Lakeland Bank in the long run.

Based upon recent feedback from peers at an annual Small Business Conference and the Anat Byrd Conference indicate that the application process and decision times for Lakeland Bank is best in class. The “Digital Strategy” that Lakeland is embarking on is looking to streamline all lending channels and improve efficiencies only more.

Summary:

Lakeland has a primary focus on a customer base of commercial and small business clients with a secondary focus on consumer clients. Growth for Lakeland has been pursued organically and through acquisition, these strategies will continue to allow Lakeland to grow, but may not be sufficient to sustain themselves in the long run. Executive Management and its Board have agreed to make a substantial investment in a 3-5 year “Digital Strategy” to keep Lakeland relevant and grow to become a \$10m organization with plans to increase to \$20m through this process.

The Chairman of the Board, President and CEO and Executive Team have all committed to maintain the Community Bank look and feel through Lakeland Bank’s expansion and growth based upon experiences they themselves, family members and clients have had at other financial institutions. With that said, the investment in technology without sacrificing the core of what made Lakeland Bank what it is will be a large differentiating factor from competitors.

Strategy/Implementation:

Proposed Process Change:

Contingency planning has been a necessity for Lakeland Bank as with other Financial Institutions and has been routinely evaluated and tested on a regular basis.

In recent years, the current plan has proven to be successful for short term needs. As an example, deployment of staff and resources during Hurricane Sandy in 2012 saw minor disruption in services and Lakeland was able to deliver uninterrupted services to its clients.

These shorter term strategies now are no longer viable based upon what has been experienced over this past year.

Based upon the global pandemic, Lakeland relied on its current contingency planning strategies as well as initiating updated untested initiatives almost on a daily basis to maintain business continuity.

Instead of utilizing the current principals and processes for contingency planning, Lakeland will be better prepared to be positioned for proactive versus on the fly, reactive decision making for such occurrences by enhancing the scope to conduct ongoing analysis of factors that may impact business continuity on a regular basis with subject matter experts and implementing a Crisis and Readiness Diagnosis Simulation Program to brief Executive Management and the Board of Directors.

The same principals will still be applicable to shorter term disruptions to allow for continuity within the organization, avoiding duplication of efforts and the ability to track and monitor progress of effectiveness.

Consideration and Expectation:

Lakeland Bank began a Digital Strategy Initiative in 2019 to continue to be a leader within the state of New Jersey and to continue on its growth trajectory path. Many systems and programs are being addressed under the Digital Strategy Initiative for complete replacement and / or enhancement. This includes the Employee Emergency Notification program to better notify Associates of situations arising under the current contingency planning program. However, the existing contingency planning program had not been significantly modified when the COVID-19 Pandemic occurred.

As the information of COVID-19 was being received by various levels of the Lakeland organization, there was much confusion as communications were not clear on how it would impact so many business units on an individual basis as well as collectively within the

organization. A Crisis and Readiness Diagnostic Simulations process evaluates six driving forces (Social, Economic, Technological, Government Policy, Medical and Organizations) and allows for the projections of four future scenarios to be monitored and evaluated based upon changes to these driving forces.

With the Crisis and Readiness Diagnostic Simulations Task Force in place, targeted information would have already been received and analyzed months earlier. This would have allowed for the four models to be projected with attention on a minimum of four of the six driving forces, thus providing attention to Executive Management and the Board of Directors.

By reviewing the projections, decisions could have been made for acquisition of proper equipment needed (laptops, updated IT infrastructure, etc.), staffing models (remote v. essential on-site), etc.

Modifying Lakeland Bank's current process will enhance its ability to avoid longer term business disruptions as well as those that did not fall under the scope of existing plans.

By implementing the Crisis and Readiness Diagnostic Simulations Task Force, efficiencies would be realized as there would be a more proactive approach to what in the past may have been unforeseen or unexpected needed changes. A more holistic view of areas of focus will keep all areas of the bank in tune with changes that are occurring or may be occurring to better align for future needs and proactive business decisions.

- Lakeland Bank will be better positioned to run entire operations uninterrupted with little to no negative impact
- Employees will have a clear understanding of expectations and the proper tools and technology at their disposal

- Client service (external and internal) delivery will be provided at the continued level that is expected and needed
- Shareholders will benefit from overall positive experiences received by clients and reviews from analysts

As this is an on going process, as new driving factors are introduced during evaluations, predictive models will be adjusted and course changes can be projected. This will continue to shape and assist key decisions for a positive impact on strategic plans for long term growth of the entire Lakeland organization.

Once the Crisis and Readiness Diagnostic Simulations Task Force is in place and functioning, an added benefit to Lakeland will be anticipated cost savings. Being able to properly analyze and predict situations that will impact normal business functionality will allow Lakeland to have planning in place on a proactive basis versus reactive. This will improve efficiencies overall and be a cost savings to Lakeland allowing for a reduction in unforeseen financial costs such as increases in payroll, IT, facilities and other non-budgeted expenses.

Change Management:

End users of the current contingency planning process within Lakeland Bank have provided feedback that the process was sufficient for what had been encountered prior to COVID-19 and the long-term impact it presented.

As Managers needed to both react to what directives were being provided, as well as providing direct and indirect reports instructions that were changing daily and even hourly based upon the situations as they unfolded, it was apparent that the existing contingency planning process was inadequate.

A solution to improve contingency planning through the use of incorporating predictive analytics with data and information obtained from six external forces, and modeling four future scenarios to assist in anticipating future business needs was viewed as an alternative. As these six external forces continue to be monitored on a regular bases (bi-monthly or quarterly), trends are identified to determine courses of actions to be taken.

This idea will be presented to Lakeland Bank Executive Management as an option as an enhancement to its current Contingency Planning processes. Those who have already received an overview of the concept agree that this is a project worth pursuing and has merit in accordance with Lakeland's overall Digital Strategy Initiative. One member of the Executive Management Team has agreed to be a sponsor of this initiative in the future and to present this to the entire Executive Management Team when the time arises.

Upon approval to move forward with the program, a Task Force would be formed to get the program started.

The six External Driving Forces that would garner focus for this program would be: Social, Technological, Economic, Government Policy, Medical, and Organizations.

To be able to ensure proper implementation and targeting of program, subject matter experts and/or consultants will be researched for potential utilization for the onboarding of this initiative with this program.

To determine the appropriate members of the Crisis and Readiness Diagnostic Simulations Task Force, the program Sponsor along with other members of Executive Management as well as the consultant would look at current Associates and choose them based upon current skill sets. The Task Force members would be internal Associates; no additional Associates would be necessary and they would be identified based upon their current functions and specialties. Once the

program is fully defined and approved, the candidates would be interviewed to ensure there is an understanding and willingness for 100% participation.

The Social Forces member would include an Associate with a background in diversity and would utilize various social networking platforms to assist in maintaining local, regional and national information. The Technological Forces member would include an Associate with a strong Information Technology background with knowledge in current in-house systems, advanced analytics and new technology developments and virtual work technology. The Economic Forces member would be an Associate from our Finance Team with knowledge of local, state, regional and national economic trends. This member would work closely with the CFO to determine and stay aligned with current and future Lakeland financial strategies. The Government Policy Forces member would include a member of the Risk Management, Compliance or Government Banking Team and would be attuned with regulations, political turns, policy changes, etc. The Medical Forces member would consist of an Associate from either the Health Care Banking Team or the Human Resources Department. They would stay on top of current trends of existing/new virus information, vaccines, therapeutics, testing, hotspots, pandemic, etc. The Organizational Forces member should be an Associate aligned with the Human Resources team – Talent Acquisition, but able to expand beyond scope of financial industries for broad comparisons.

Once the Crisis and Readiness Diagnostic Simulations Task Force is identified the consultant (should one be brought on) and the Executive sponsor would set program requirements and expectations including formalized meeting schedules. In addition, the Task Force Chair would

be assisted in the formatting and requirements for presentations to Executive Management and Board of Directors.

A check in process would be built to determine effectiveness of the program to allow for modifications within the first six months of initiation.

Organizational Strategy & Competitive Advantage:

As Lakeland Bank continues to embark on its Digital Strategy Initiative, the importance of maintaining agility when encountering unforeseen circumstances is more relevant than ever before. The implementation of the Crisis and Readiness Diagnostic Simulations Task Force will be a benefit to Lakeland in many ways and help keep its competitive advantage during circumstances that in the past may have limited access partially or in its entirety.

Lakeland will be able to better predict needs to keep it functioning in a more “business as usual” mode. Associates will be better prepared with technology at the ready with stronger IT functionality from an infrastructure and hardware perspective. Clients will have access to their bankers whether it is virtually or via onsite as needed. Lakeland will be ready and ahead of the local competitors when it comes to access and availability.

As there will now be a way to predict situations based upon trends, Lakeland will be able to better model financial expectations for various industries and allocate funding for their own balance sheets accordingly as well. Again, this will put Lakeland ahead of competitors with a stronger balance sheet for difficult times.

As the Crisis and Readiness Diagnostic Simulations Task Force becomes more proficient, additional opportunities will also become available for Lakeland to utilize vendor partners for unusual circumstances that arise. As an example, during the initial Payroll Protection Program rollout in April 2020, Lakeland took it upon itself to develop its own process and utilize its own

associates for all processing from application acceptance, through underwriting, and approval to funding. During the two waves of the program they processed over 2,300 applications. Many employees worked eighty to ninety hours a week for six to seven weeks straight. With the implementation of the Crisis and Readiness Diagnostic Simulations Task Force, Lakeland would have been able to foresee this opportunity coming on the horizon thus allowing them to research the engagement of a third-party vendor for this process early on. The end result would have realized a better client experience, a large cost savings in payroll, and would have allowed the bank to engage prospective clients for new business opportunities when the larger banks were not accepting applications under the program.

Future Opportunities:

The proper deployment of Associates is paramount for any organization. If Lakeland is able to deploy its Associates more efficiently and effectively, as well as provide the proper technology that functions as needed, then the opportunities are endless. By implementing the Crisis and Readiness Diagnostic Simulations Task Force, Lakeland can ensure that client needs are being met seamlessly.

Lakeland can build on adding more short and long term remote work locations based upon decisions that result from contingency plan events, and by having those decisions analyzed by department Managers. This may ultimately result in cost savings by lowering overhead in larger facilities.

Process Change:

As the Crisis and Readiness Diagnostic Simulations Task Force is implemented, the members will meet either bi-monthly or quarterly to discuss the six external forces (Social, Technological, Economic, Government Policy, Medical, Organizations).

- From this they will draw four future likely scenarios (1 – status quo) (2 – changes are anticipated in any one of the given forces) (3 - changes are anticipated in any combination of the given forces) (4 - changes are anticipated in all the given forces).
- Based upon all four scenarios – Is there any modifications or contingency planning Lakeland should be ready to implement
- Chair will be ready to report to Executive Management
- Meet again in two months (or quarterly)
- Begin with four scenarios from last meeting
- Start process over and note any major changes and determine any changes to contingency planning that Lakeland should be ready to implement

Implementation Schedule:

- The Crisis and Readiness Diagnostic Simulations Task Force was already discussed with two members of the Executive Management team at Lakeland Bank in July of 2020 by Kenneth Bostwick and was met favorably. One of the Executive Managers has agreed to be a sponsor of the program and present it to the entire Executive Management team at a later time.
- March 2021 – Presented to Executive Management Team – Jennifer Thoma*
- May 2021 – Research Consultant(s) – Ken Bostwick
- June 2021 – Interview External Driving Forces Members – Ken Bostwick, Jennifer Thoma, Consultant (if applicable)
- July 2021 – First Meeting with Team – Ken Bostwick, Jennifer Thoma, Consultant (if applicable)
- August 2021 – First Productive Meeting – Task Force Members

- August 2021 – First Executive Management Presentation – Task Force Chair, Ken Bostwick

(* can not be presented until this time based upon Digital Strategy Initiative CRM Conversion)

Financial Impact:

The implementation of a Crisis and Readiness Diagnostic Simulations program will not require a major initial and ongoing financial investment from Lakeland Bank. The anticipated upfront costs would be required to engage with a consultant with a background in this area to ensure the proper formation of the team members and to work with the group in laying the foundation for executing the program as outlined for maximum impact and efficiencies. Prior experience within the organization has shown this cost to range from \$35,000 to \$50,000. Additional costs for research tools needed for the Crisis and Readiness Diagnostic Simulations should not be incurred as various departments are already utilizing the tools and reports for other needs within the organization and can be redirected for the program (Vertical IQ, D&B Hoovers, ALCO Reports, Verafin, Stress Testing Analysis, etc.).

There will not be any additional Data Warehouse fees incurred as the program is primarily done on a local level with information gathered, analyzed and stored locally. Any information needed from the core is already in place. Any new programming for reporting is anticipated to be able to be accomplished from our internal IT department staff (minimal need expected).

No anticipated additional salary expense added with this program due to the utilization of existing internal Associates. Participants of this program will be current Associates assigned to the initiative based upon current skill sets. The program will be built into current duties assigned to the participants involved with the initiative.

Based upon net income figures for 2019, as reported by Lakeland Bancorp. Inc., the estimated costs associated with the implementation and maintenance of the Crisis and Readiness Diagnostic Simulations program would be justified and recouped by accurately forecasting scenarios that would impact the operations of the organization, thus allowing functionality even by less than one day than the current contingency planning program allows for.

Example - $\$70.7\text{m} / 365 = \193k lost revenue per day should bank require to be closed

FINANCIAL HIGHLIGHTS Lakeland Bancorp, Inc. and Subsidiaries

FOR THE YEAR

(dollars and shares in thousands, except per-share data)

	2019	2018	2017
Net Income	\$ 70,672	\$ 63,401	\$ 52,580

Recent temporary closures in Lakeland's branch network as well as the Corporate Offices and Operations Centers were detrimental due to the COVID-19 Pandemic. The impact was felt in a decrease of 25% year over year Net Income for the first three quarters of 2020.

Net Income As Reported By Lakeland Bancorp Inc. and Subsidiaries

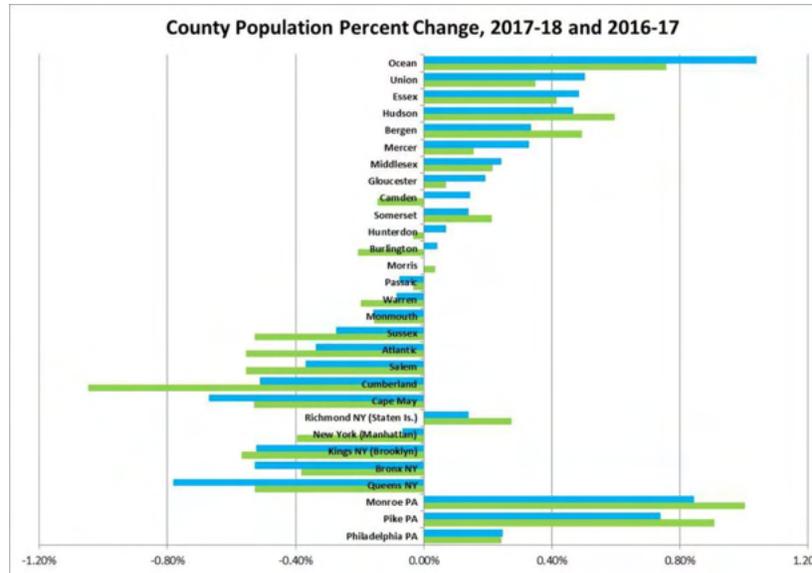
Q1 2019	Q1 2020	Q2 2019	Q2 2020	Q3 2019	Q3 2020	Q4 2019	Q4 2020
\$15.6M	\$12.4M	\$17.5M	\$11.9M	\$18.9M	\$14.4M	\$18.7M	TBD

The Crisis and Readiness Diagnostic Simulations Program could not have eliminated this downturn completely however, it could have had the bank better prepared for this. The biggest downturn in performance occurred in Q2 2020; at a time when Lakeland Bank basically shut down all proactive sales outreach activities to current and prospective clients to gauge how best to handle relationships impacted by the economic downturn and health crisis. Networking conversations as well as scheduled vendor partner meetings with peer groups reflected that competitors, on the other hand, locally, regionally and nationwide were taking a different

proactive approach and reaching out to their clients as well as those of other institutions to deepen relationships as well as attempt to garner them from other financial institutions. Had the Crisis and Readiness Diagnostic Simulations Program been in place and had Lakeland been positioned for the forecasted downturns and health crisis with a more proactive approach towards PPP for existing clients, new clients could have helped grow business through Q2 and Q3 2020 and all lines of business could have been open more efficiently. In addition, this would have driven market share retention and growth.

STATE: New Jersey										COUNTY: Sussex, NJ															
2019		2018		2019		2018		2019		2018		2019		2018		2019		2018							
Rank	Rank	Institution (Headquarters)	Type	Branches	Number of	Deposits	Market	Share	(\$M)	(%)	(\$M)	(%)	Rank	Rank	Institution (Headquarters)	Type	Branches	Number of	Deposits	Market	Share	(\$M)	(%)	(\$M)	(%)
1	1	Bank of America Corporation (NC)	Bank	229	56,039.3	16.39	54,461.7	16.35					1	1	Lakeland Bancorp (NJ)	Bank	11	1,115.4	31.73	1,154.7	34.65				
2	2	Toronto-Dominion Bank	Bank	239	41,823.3	12.23	40,533.9	12.17					2	2	Provident Financial Services (NJ)	Bank	7	792.4	22.54	595.4	17.86				
3	3	Wells Fargo & Co. (CA)	Bank	262	36,444.5	10.66	37,273.6	11.19					3	3	JPMorgan Chase & Co. (NY)	Bank	6	512.5	14.58	510.0	15.30				
4	4	PNC Financial Services Group (PA)	Bank	265	29,975.9	8.77	29,584.0	8.88					4	4	PNC Financial Services Group (PA)	Bank	5	282.9	8.05	275.8	8.28				
5	5	JPMorgan Chase & Co. (NY)	Bank	209	23,807.1	6.96	23,065.7	6.92					5	5	Wells Fargo & Co. (CA)	Bank	3	243.7	6.93	235.3	7.06				
6	6	Valley National Bancorp (NJ)	Bank	137	18,121.1	5.30	15,660.3	4.70					6	6	Valley National Bancorp (NJ)	Bank	3	222.6	6.33	207.6	6.23				
7	7	Investors Bancorp Inc (NJ)	Bank	109	15,605.0	4.56	14,936.9	4.48					7	8	Banco Santander	Bank	2	143.8	4.09	142.9	4.29				
8	8	Banco Santander	Bank	127	10,476.3	3.06	11,233.4	3.37					8	7	First Hope Bancorp (NJ)	Bank	2	139.4	3.97	148.3	4.45				
9	9	Provident Financial Services (NJ)	Bank	97	8,066.2	2.36	7,652.7	2.30					9	9	Toronto-Dominion Bank	Bank	1	62.9	1.79	62.8	1.88				
10	11	OceanFirst Financial Corp. (NJ)	Bank	65	7,192.2	2.10	7,151.1	2.15																	
14	14	Lakeland Bancorp (NJ)	Bank	52	5,028.9	1.47	4,777.2	1.43																	
				Total for institutions in market				2,721 341,953.5 333,135.7								Total for institutions in market				40 3,515.6 3,332.7					

COUNTY: Morris, NJ										COUNTY: Passaic, NJ															
2019		2018		2019		2018		2019		2018		2019		2018		2019		2018		2019		2018			
Rank	Rank	Institution (Headquarters)	Type	Branches	Number of	Deposits	Market	Share	(\$M)	(%)	(\$M)	(%)	Rank	Rank	Institution (Headquarters)	Type	Branches	Number of	Deposits	Market	Share	(\$M)	(%)	(\$M)	(%)
1	1	Bank of America Corporation (NC)	Bank	21	3,974.8	15.81	3,873.3	15.66					1	1	Valley National Bancorp (NJ)	Bank	18	6,164.0	38.44	4,326.5	30.22				
2	2	JPMorgan Chase & Co. (NY)	Bank	22	3,135.8	12.48	3,192.9	12.91					2	2	Toronto-Dominion Bank	Bank	13	1,470.0	9.17	1,339.5	9.36				
3	3	Wells Fargo & Co. (CA)	Bank	18	2,399.6	9.55	2,380.4	9.63					3	4	PNC Financial Services Group (PA)	Bank	17	1,264.3	7.88	1,215.2	8.49				
4	4	Toronto-Dominion Bank	Bank	15	2,373.6	9.44	2,353.9	9.52					4	5	Lakeland Bancorp (NJ)	Bank	10	1,246.3	7.77	1,056.2	7.38				
5	5	HSBC Holdings	Bank	2	1,990.3	7.92	1,900.8	7.69					5	3	Wells Fargo & Co. (CA)	Bank	14	1,212.5	7.56	1,279.1	8.94				
6	6	PNC Financial Services Group (PA)	Bank	16	1,665.2	6.62	1,675.8	6.78					6	6	JPMorgan Chase & Co. (NY)	Bank	9	1,033.8	6.45	1,012.6	7.07				
7	7	Valley National Bancorp (NJ)	Bank	15	1,492.3	5.94	1,422.2	5.75					7	7	Columbia Financial Inc. (MHC) (NJ)	Thrift	8	791.6	4.94	814.0	5.69				
8	9	Lakeland Bancorp (NJ)	Bank	13	1,055.7	4.20	1,010.5	4.09					8	8	Bank of America Corporation (NC)	Bank	4	684.8	4.27	731.0	5.11				
9	8	Provident Financial Services (NJ)	Bank	11	1,032.2	4.11	1,028.2	4.16					9	9	Kearny Financial Corp. (NJ)	Thrift	4	594.6	3.71	647.9	4.53				
10	11	Peapack-Gladstone Financial (NJ)	Bank	6	1,027.7	4.09	875.1	3.54					10	10	Citigroup Inc. (NY)	Bank	1	491.0	3.06	585.0	4.09				
				Total for institutions in market				204 25,135.8 24,727.0								Total for institutions in market				113 16,034.4 14,314.8					



(Lakeland Bankcorp)

(NJFUTURE.org)

Subjective Evaluation:

In the best case scenario, the Crisis and Readiness Diagnostic Simulations Program Team projects four ongoing projections and monitors accordingly and adjusts them as needed by the changing influences of the six External Driving Forces for the projections. As presented to Executive Management and Board of Directors, these models are followed and Lakeland Bank takes the necessary steps and is ready for implementation should one of the predicted forecasts come to fruition. Little to no disruption of services is realized and business goes on as usual. An undesirable result would be that the Crisis and Readiness Diagnostic Simulations Program Team does not stay current on all six of the External Driving Forces for the projections. Each has an equally important weight in providing accurate scenarios as prescribed. It will be up to the program chair to ensure that this stays on point.

The worst case scenario would be that the program team provides projections to Executive Management and Board of Directors and no action is taken and undesired results occur due to this.

The implementation of the Crisis and Readiness Diagnostic Simulations program will be a worthwhile investment to Lakeland Bank to enhance the current business continuity plan which has proven to be outdated based upon current longer term needs as reflected by what has been encountered in 2020 due to the COVID-19 Pandemic.

It is anticipated that minimal monetary investment will be needed for the program. The use of existing Associates in house will assist with career growth and morale and provide clear lines of communication on a regular basis between key business unit staff members.

The program will enhance current programs that are already utilized by Lakeland Executive Management to better run business on a daily bases. This includes Executive Management's Enterprise Risk Management Program that can utilize information provided by the Crisis and Readiness Diagnostic Simulations program in determining other strategic planning for the business.

Had the Crisis and Readiness Diagnostic Simulations program been in place prior to the COVID-19 Pandemic, Lakeland would have been in a much better position to service internal and external clients. Associates would have been prepared to work in a remote environment and would have been assigned the proper tools to be able to do so (laptop, iPads etc.). As this arose, collateral was assigned piecemeal and it took upwards of 4 months to get essential Associates the proper tools needed to function. The deployment is still occurring through Q1 2021 for some Associates at this point.

Network Infrastructure was not set for the added traffic based upon the increase in remote employees, this was another area that could have been addressed, prioritized and resolved ahead of the need as well.

As the world has adjusted to the “new normal” of virtual tools, and remote/virtual meetings, Lakeland Bank has done so slowly and is still in a bit of a catch-up mode. With the implementation of The Crisis and Readiness Diagnostic Simulations program in place, that can be eliminated and Lakeland can be a leader within the industry and take advantage of that with clients and prospects alike.

Non-Financial Impact:

Implementing the Crisis and Readiness Diagnostic Simulations program would impact Lakeland Bank in several positive ways:

- Improved Customer Experience / Customer Reputation
- Enhanced Employee Satisfaction / Employee Morale
- Timely Proactive planning v. Reactive trial by fire

Lakeland Bank will need to address potential hurdles with the implementation as well:

- Corporate Cultural change / Buy-in
- Effective Time Management
- Accurate Long-Term Result Planning

Hurdles:

Corporate Cultural Change/Buy In:

As bankers by nature are very analytical and are numbers driven, the utilization of predictive analytics is a difficult concept for many to accept. By taking six external driving forces to come up with four potential scenarios to drive contingency planning is a concept that will not be readily accepted by all concerned immediately. Examples of how this has been done successfully in the past will be key to overcoming this challenge.

Time Management:

As with any new program/task force implemented, there is always the question of when will there be time to do this. Add in that this program will be made up of existing Associates with an existing job and responsibilities, this compounds to the question of where will I get the time to do this? Showing the benefits of how this will help the individuals, their business units and the organization as a whole will be part of the positive effort to get buy in. The other benefit will be the individuals working as a team and seeing how the six driving forces collectively drive the four scenarios and impact each of the business units that will comprise the team. This will provide the team members with insight that they would not normally have and prove that the time invested will be well worth it to them.

Long Term Results Planning:

Unfortunately, we live in a world of instant gratification and like to see the immediate results. This program will not provide instant results and will require long term tracking and constant changes and adjustments based upon ongoing changes in the six driving forces. The team participants will need to understand this and be shown examples of prior program results to grasp

the concepts and to truly appreciate the long-term impact they will have. This is where a strong partnership with a good consultant will come in to play.

Improved Customer Experience/Customer Reputation:

Should the need for contingency planning be used in the future, any reduction in negative customer impact is a win for Lakeland Bank and its Associates. Lakeland prides itself on its Customer Service reputation and ability to serve. Any drop in customer expectation is not acceptable. The impact of the COVID-19 Pandemic was disruptive to many clients when it came to branch closures, limited hours and the need to expand drive-up capabilities versus lobby access as well as the volume of round one of PPP processing. With the ability to plan more efficiently, the Crisis and Readiness Diagnostic Simulations program in place, disruptions can be reduced or eliminated that negatively impact clients, thus ultimately keeping and improving upon the reputation that Lakeland Bank has built even throughout unforeseen circumstances.

Enhanced Employee Satisfaction / Employee Morale:

Improved communication and expectations with better planning via the Crisis and Readiness Diagnostic Simulations program will help enhance Employee Satisfaction and Morale. Less confusion and a clear plan ahead of, or at the time of a situation helps for Associates to plan according to work life balance. This will lead to better retention and employment reputation.

Timely Proactive Planning versus Trial by Fire:

As business needs are enhanced due to a projected change, emergency, or crisis, the ability to have systems, hardware, usage modifications planned and tested ahead of the implementation will work for the mass pool of Associates versus the “trail by fire” process that has been in place during the recent system enhancements experienced during the 2020 COVID-19 Pandemic. This

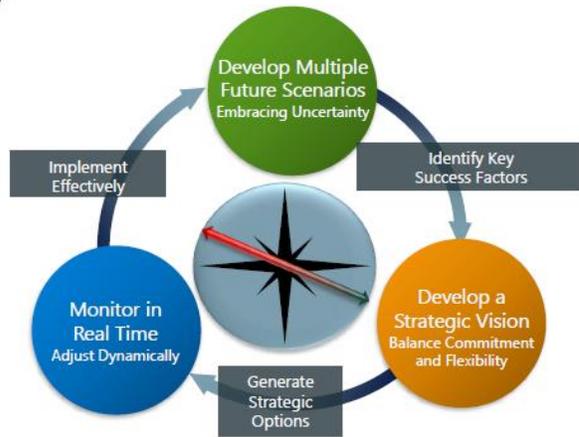
will avoid system outages and allow for proper training for Associates to be on proper systems as the needs arise.

Conclusion:

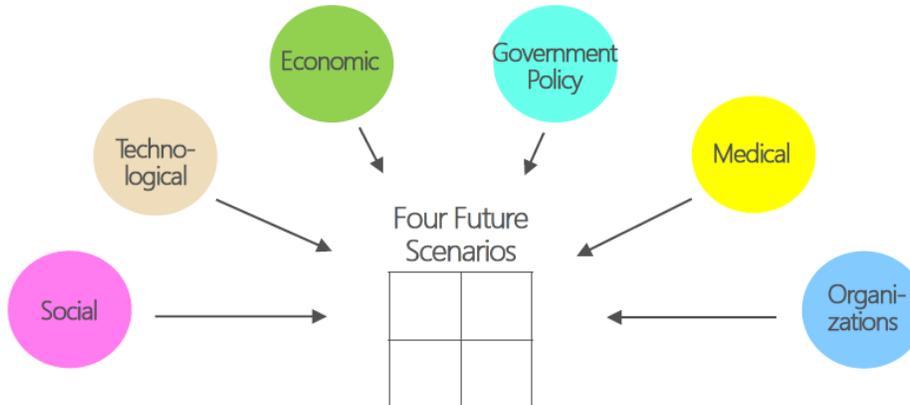
Although not being able to see into the future, by pooling resources and monitoring changes in these key areas and regularly adjusting strategies based upon changes, these better prepare Lakeland Bank for fast and efficient contingency implementation. The Crisis and Readiness Diagnostic Simulations Program should be considered for implementation by Lakeland Bank's Executive Management Team as soon as possible for the many reasons provided in this paper. As this would be a relatively low-cost program to launch and run on an ongoing bases, the Bank basically already has the tools and information needed, it is a matter of harnessing the wealth of data at its disposal and leveraging it properly to prepare for future short, medium- and long-term business emergencies. Lakeland will benefit from this program monetarily and from maintained and improved customer reputation.

Visual Examples of the Process*:

Strategic Compass for Profiting from Uncertainty



External Forces Driving the Future



(* Strategy Under Uncertainty – Dr. Roch Parayre – CEO & Chairman, Strategique)

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