

LAKELAND FINANCIAL CORP

Form 10-Q

May 10, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

LAKELAND FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Indiana	0-11487	35-1559596
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(IRS Employer Identification No.)

202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46581-1387
(Address of Principal Executive Offices)(Zip Code)

(574) 267-6144
(Registrant's Telephone Number, Including Area Code)

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

Yes No

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

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

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

Large accelerated filer Accelerated filer Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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

Number of shares of common stock outstanding at April 30, 2016: 16,696,834

TABLE OF CONTENTS

Page

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	
	<u>Consolidated Balance Sheets — March 31, 2016 and December 31, 2015</u>	1
	<u>Consolidated Statements of Income — three months ended March 31, 2016 and 2015</u>	2
	<u>Consolidated Statements of Comprehensive Income — three months ended March 31, 2016 and 2015</u>	3
	<u>Consolidated Statements of Shareholders' Equity — three months ended March 31, 2016 and 2015</u>	4
	<u>Consolidated Statements of Cash Flows — three months ended March 31, 2016 and 2015</u>	5
	<u>Notes to the Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
Item 4.	<u>Controls and Procedures</u>	43
PART II. OTHER INFORMATION		
Item 1.	<u>Legal Proceedings</u>	44
Item 1A.	<u>Risk Factors</u>	44
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
Item 3.	<u>Defaults Upon Senior Securities</u>	44
Item 4.	<u>Mine Safety Disclosures</u>	44
Item 5.	<u>Other Information</u>	44
Item 6.	<u>Exhibits</u>	45
<u>SIGNATURES</u>		46

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (in thousands except share data)

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and due from banks	\$63,849	\$67,484
Short-term investments	16,889	13,190
Total cash and cash equivalents	80,738	80,674
Securities available for sale (carried at fair value)	485,263	478,071
Real estate mortgage loans held for sale	2,186	3,294
Loans, net of allowance for loan losses of \$43,284 and \$43,610	3,070,016	3,037,319
Land, premises and equipment, net	48,628	46,684
Bank owned life insurance	70,043	69,698
Federal Reserve and Federal Home Loan Bank stock	7,668	7,668
Accrued interest receivable	10,030	9,462
Goodwill	4,970	4,970
Other assets	29,365	28,446
Total assets	\$3,808,907	\$3,766,286
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	\$660,318	\$715,093
Interest bearing deposits	2,590,417	2,468,328
Total deposits	3,250,735	3,183,421
Short-term borrowings		
Securities sold under agreements to repurchase	59,504	69,622
Other short-term borrowings	35,000	70,000
Total short-term borrowings	94,504	139,622
Long-term borrowings	32	34
Subordinated debentures	30,928	30,928
Accrued interest payable	4,212	3,773
Other liabilities	21,533	15,607
Total liabilities	3,401,944	3,373,385
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value		
16,696,834 shares issued and 16,596,745 outstanding as of March 31, 2016		

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

16,641,651 shares issued and 16,546,044 outstanding as of December 31, 2015	99,962	99,123
Retained earnings	302,202	294,002
Accumulated other comprehensive income	7,363	2,142
Treasury stock, at cost (2016 - 100,089 shares, 2015 - 95,607 shares)	(2,653)	(2,455)
Total stockholders' equity	406,874	392,812
Noncontrolling interest	89	89
Total equity	406,963	392,901
Total liabilities and equity	\$3,808,907	\$3,766,286

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

CONSOLIDATED STATEMENTS OF INCOME (unaudited - in thousands except share and per share data)

Three Months Ended

March 31,

2016 2015

NET INTEREST INCOME

Interest and fees on loans

Taxable	\$29,630	\$26,257
Tax exempt	111	117
Interest and dividends on securities		
Taxable	2,546	2,448
Tax exempt	895	829
Interest on short-term investments	28	13
Total interest income	33,210	29,664

Interest on deposits	4,195	3,648
Interest on borrowings		
Short-term	147	60
Long-term	286	256
Total interest expense	4,628	3,964

NET INTEREST INCOME	28,582	25,700
---------------------	--------	--------

Provision for loan losses	0	0
---------------------------	---	---

NET INTEREST INCOME AFTER PROVISION FOR

LOAN LOSSES	28,582	25,700
-------------	--------	--------

NONINTEREST INCOME

Wealth advisory fees	1,160	1,184
Investment brokerage fees	288	492
Service charges on deposit accounts	2,780	2,374
Loan, insurance and service fees	1,838	1,569
Merchant card fee income	497	416
Bank owned life insurance income	173	375
Other income	(72)	954
Mortgage banking income	327	389
Net securities gains	52	42
Total noninterest income	7,043	7,795

NONINTEREST EXPENSE

Salaries and employee benefits	9,605	9,723
Net occupancy expense	1,096	1,084
Equipment costs	901	916
Data processing fees and supplies	2,032	1,767
Corporate and business development	857	790
FDIC insurance and other regulatory fees	523	486
Professional fees	827	689
Other expense	1,543	1,446

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

Total noninterest expense	17,384	16,901
INCOME BEFORE INCOME TAX EXPENSE	18,241	16,594
Income tax expense	5,962	5,458
NET INCOME	\$12,279	\$11,136
BASIC WEIGHTED AVERAGE COMMON SHARES	16,679,835	16,590,285
BASIC EARNINGS PER COMMON SHARE	\$0.74	\$0.67
DILUTED WEIGHTED AVERAGE COMMON SHARES	16,885,204	16,789,497
DILUTED EARNINGS PER COMMON SHARE	\$0.73	\$0.66

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited - in thousands)

	Three months ended March 31,	
	2016	2015
Net income	\$12,279	\$11,136
Other comprehensive income		
Change in securities available for sale:		
Unrealized holding gain on securities available for sale arising during the period	7,547	3,662
Reclassification adjustment for gains included in net income	(52)	(42)
Net securities gain activity during the period	7,495	3,620
Tax effect	(2,306)	(1,443)
Net of tax amount	5,189	2,177
Defined benefit pension plans:		
Net gain (loss) on defined benefit pension plans	0	(276)
Amortization of net actuarial loss	54	61
Net gain (loss) activity during the period	54	(215)
Tax effect	(22)	77
Net of tax amount	32	(138)
Total other comprehensive income, net of tax	5,221	2,039
Comprehensive income	\$17,500	\$13,175

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited - in thousands except share and per share data)

	Common Stock Shares	Common Stock Stock	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2015	16,465,621	\$96,121	\$263,345	\$3,830	\$(2,000)	\$361,296
Comprehensive income:						
Net income			11,136			11,136
Other comprehensive income, net of tax				2,039		2,039
Cash dividends declared, \$0.21 per share			(3,477)			(3,477)
Treasury shares purchased under deferred directors' plan	(4,730)	191			(191)	0
Stock activity under equity compensation plans	60,364	(597)				(597)
Stock based compensation expense		353				353
Balance at March 31, 2015	16,521,255	\$96,068	\$271,004	\$5,869	\$(2,191)	\$370,750
Balance at January 1, 2016	16,546,044	\$99,123	\$294,002	\$2,142	\$(2,455)	\$392,812
Comprehensive income:						
Net income			12,279			12,279
Other comprehensive income, net of tax				5,221		5,221
Cash dividends declared, \$0.245 per share			(4,079)			(4,079)
Treasury shares purchased under deferred directors' plan	(4,482)	198			(198)	0
Stock activity under equity compensation plans	55,183	(143)				(143)
Stock based compensation expense		784				784
Balance at March 31, 2016	16,596,745	\$99,962	\$302,202	\$7,363	\$(2,653)	\$406,874

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

4

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited - in thousands)

Three Months Ended March 31	2016	2015
Cash flows from operating activities:		
Net income	\$12,279	\$11,136
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	983	956
Net (gain) loss on sale and write down of other real estate owned	0	(12)
Amortization of loan servicing rights	145	142
Loans originated for sale	(10,341)	(16,679)
Net gain on sales of loans	(339)	(361)
Proceeds from sale of loans	11,666	16,249
Net gain on sales of premises and equipment	0	(3)
Net gain on sales and calls of securities available for sale	(52)	(42)
Net securities amortization	695	1,193
Stock based compensation expense	784	353
Earnings on life insurance	(174)	(375)
Tax benefit of stock award exercises	(482)	(12)
Net change:		
Interest receivable and other assets	(3,293)	83
Interest payable and other liabilities	6,595	3,848
Total adjustments	6,187	5,340
Net cash from operating activities	18,466	16,476
Cash flows from investing activities:		
Proceeds from sale of securities available for sale	6,929	7,787
Proceeds from maturities, calls and principal paydowns of securities available for sale		
	19,700	19,464
Purchases of securities available for sale	(26,969)	(26,069)
Purchase of life insurance	(179)	(149)
Net increase in total loans	(32,730)	(10,672)
Proceeds from sales of land, premises and equipment	0	6
Purchases of land, premises and equipment	(2,927)	(1,414)
Proceeds from sales of other real estate	0	16
Net cash from investing activities	(36,176)	(11,031)

Cash flows from financing activities:		
Net increase in total deposits	67,314	121,119
Net decrease in short-term borrowings	(45,118)	(99,890)
Payments on long-term borrowings	(2)	(1)
Common dividends paid	(4,079)	(3,477)
Payments related to equity incentive plans	(143)	(597)
Purchase of treasury stock	(198)	(191)
Net cash from financing activities	17,774	16,963
Net change in cash and cash equivalents	64	22,408
Cash and cash equivalents at beginning of the period	80,674	90,638
Cash and cash equivalents at end of the period	\$80,738	\$113,046
Cash paid during the period for:		
Interest	\$4,188	\$3,318
Income taxes	0	104
Supplemental non-cash disclosures:		
Loans transferred to other real estate owned	33	194

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

NOTE 1. BASIS OF PRESENTATION

This report is filed for Lakeland Financial Corporation (the “Company”) and its wholly owned subsidiaries, Lake City Bank (the “Bank”) and LCB Risk Management, a captive insurance company. Also included in this report is the Bank’s wholly owned subsidiary, LCB Investments II, Inc. (“LCB Investments”), which manages the Bank’s investment portfolio. LCB Investments also owns LCB Funding, Inc. (“LCB Funding”), a real estate investment trust. All significant inter-company balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and are unaudited. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three-month period ending March 31, 2016 are not necessarily indicative of the results that may be expected for any subsequent reporting periods, including the year ending December 31, 2016. The Company’s 2015 Annual Report on Form 10-K should be read in conjunction with these statements.

NOTE 2. SECURITIES

Information related to the fair value and amortized cost of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income is provided in the tables below.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
March 31, 2016				
U.S. Treasury securities	\$988	\$46	\$0	\$1,034
U.S. government sponsored agencies	7,132	59	0	7,191
Agency residential mortgage-backed securities	350,450	9,539	(262)	359,727
State and municipal securities	113,030	4,448	(167)	117,311
Total	\$471,600	\$14,092	\$(429)	\$485,263
December 31, 2015				
U.S. Treasury securities	\$988	\$15	\$0	\$1,003
U.S. government sponsored agencies	7,178	19	(77)	7,120
Agency residential mortgage-backed securities	357,984	5,087	(2,399)	360,672
State and municipal securities	105,753	3,773	(250)	109,276
Total	\$471,903	\$8,894	\$(2,726)	\$478,071

Information regarding the fair value and amortized cost of available for sale debt securities by maturity as of March 31, 2016 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without a prepayment penalty.

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$2,895	\$2,939
Due after one year through five years	20,132	20,834
Due after five years through ten years	47,500	49,987
Due after ten years	50,623	51,776
	121,150	125,536
Mortgage-backed securities	350,450	359,727
Total debt securities	\$471,600	\$485,263

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

Securities proceeds, gross gains and gross losses are presented below.

(dollars in thousands)	Three months ended March 31,	
	2016	2015
Sales of securities available for sale		
Proceeds	\$6,929	\$7,787
Gross gains	65	42
Gross losses	13	0

The Company sold four securities with a total book value of \$6.9 million and a total fair value of \$7.0 million during the first three months of 2016. The Company sold two securities with a total book value of \$7.7 million and a total fair value of \$7.8 million during the first three months of 2015.

Purchase premiums or discounts are recognized in interest income using the interest method over the terms of the securities or over the estimated lives of mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold and recorded on the trade date.

Securities with carrying values of \$193.1 million and \$122.7 million were pledged as of March 31, 2016 and December 31, 2015, respectively, as collateral for securities sold under agreements to repurchase, borrowings from the Federal Home Loan Bank and for other purposes as permitted or required by law.

Information regarding securities with unrealized losses as of March 31, 2016 and December 31, 2015 is presented below. The tables divide the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

(dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2016						
Agency residential mortgage-backed securities	\$9,481	\$(34)	\$28,551	\$(228)	\$38,032	\$(262)
State and municipal securities	12,527	(80)	3,587	(87)	16,114	(167)
Total temporarily impaired	\$22,008	\$(114)	\$32,138	\$(315)	\$54,146	\$(429)
December 31, 2015						
U.S. government sponsored agencies	\$0	\$0	\$3,895	\$(77)	\$3,895	\$(77)
Agency residential mortgage-backed securities	151,792	(1,521)	30,116	(878)	181,908	(2,399)
State and municipal securities	11,364	(78)	8,326	(172)	19,690	(250)
Total temporarily impaired	\$163,156	\$(1,599)	\$42,337	\$(1,127)	\$205,493	\$(2,726)

The total number of securities with unrealized losses as of March 31, 2016 and December 31, 2015 is presented below.

	Less than 12 months	12 months or more	Total
March 31, 2016			
Agency residential mortgage-backed securities	6	10	16
State and municipal securities	13	4	17
Total temporarily impaired	19	14	33
December 31, 2016			
U.S. government sponsored agencies	0	1	1
Agency residential mortgage-backed securities	46	9	55
State and municipal securities	21	12	33
Total temporarily impaired	67	22	89

The following factors are considered in determining whether or not the impairment of these securities is other-than-temporary. In making this determination, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer, as well as the underlying fundamentals of the relevant market and the outlook for such market in the near future. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. Credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings. As of March 31, 2016 and December 31, 2015, ninety-nine percent of the securities in the Company's portfolio are backed by the U.S. government, government agencies, government sponsored agencies or are A-rated or better, except for certain non-local or local municipal securities, which are not rated. For the government, government-sponsored agency and municipal securities, management did not believe that there would be credit losses or that full principal would not be received. Management considered the unrealized losses on these securities to be primarily interest rate driven and does not expect material losses given current market conditions unless the securities are sold. However, at this time management does not have the intent to sell, and it is more likely than not that the Company will not be required to sell these securities before the recovery of their amortized cost basis.

NOTE 3. LOANS

(dollars in thousands)	March 31,			December 31,		
	2016			2015		
Commercial and industrial loans:						
Working capital lines of credit loans	\$591,136	19.0	%	\$581,025	18.9	%
Non-working capital loans	614,619	19.7		598,487	19.4	
Total commercial and industrial loans	1,205,755	38.7		1,179,512	38.3	
Commercial real estate and multi-family residential loans:						
Construction and land development loans	206,378	6.6		230,719	7.5	
Owner occupied loans	447,620	14.4		412,026	13.4	
Nonowner occupied loans	408,273	13.1		407,883	13.2	
Multifamily loans	104,303	3.4		79,425	2.6	
Total commercial real estate and multi-family residential loans	1,166,574	37.5		1,130,053	36.7	
Agri-business and agricultural loans:						
Loans secured by farmland	144,687	4.6		164,375	5.3	
Loans for agricultural production	128,456	4.1		141,719	4.6	
Total agri-business and agricultural loans	273,143	8.8		306,094	9.9	
Other commercial loans	83,617	2.7		85,075	2.8	
Total commercial loans	2,729,089	87.7		2,700,734	87.7	
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	161,701	5.2		158,062	5.1	
Open end and junior lien loans	160,734	5.2		163,700	5.3	
Residential construction and land development loans	8,488	0.3		9,341	0.3	
Total consumer 1-4 family mortgage loans	330,923	10.6		331,103	10.7	
Other consumer loans	53,327	1.7		49,113	1.6	
Total consumer loans	384,250	12.3		380,216	12.3	
Subtotal	3,113,339	100.0	%	3,080,950	100.0	%
Less: Allowance for loan losses	(43,284)			(43,610)		
Net deferred loan fees	(39)			(21)		
Loans, net	\$3,070,016			\$3,037,319		

The recorded investment in loans does not include accrued interest.

The Company had \$326,000 in residential real estate loans in process of foreclosure as of March 31, 2016.

NOTE 4. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The following tables present the activity in the allowance for loan losses by portfolio segment for the three-month periods ended March 31, 2016 and 2015:

	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
(dollars in thousands) Three Months Ended March 31, 2016								
Beginning balance, January 1	\$21,564	\$12,473	\$2,445	\$574	\$3,395	\$319	\$2,840	\$43,610
Provision for loan losses	(947)	436	4	(15)	196	42	284	0
Loans charged-off	(214)	(168)	0	0	(38)	(45)	0	(465)
Recoveries	62	11	5	0	33	28	0	139
Net loans charged-off	(152)	(157)	5	0	(5)	(17)	0	(326)
Ending balance	\$20,465	\$12,752	\$2,454	\$559	\$3,586	\$344	\$3,124	\$43,284

	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
(dollars in thousands) Three Months Ended March 31, 2015								
Beginning balance	\$22,785	\$14,153	\$1,790	\$276	\$3,459	\$483	\$3,316	\$46,262

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

Provision for loan losses	556	(338)	(167)	244	(25)	(35)	(235)	0
Loans charged-off	(369)	(30)	0	(122)	(134)	(53)	0	(708)
Recoveries	52	19	4	0	13	35	0	123
Net loans charged-off	(317)	(11)	4	(122)	(121)	(18)	0	(585)
Ending balance	\$23,024	\$13,804	\$1,627	\$398	\$3,313	\$430	\$3,081	\$45,677

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2016 and December 31, 2015:

	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
(dollars in thousands)								
March 31, 2016								
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$2,541	\$430	\$0	\$4	\$415	\$49	\$0	\$3,439
Collectively evaluated for impairment	17,924	12,322	2,454	555	3,171	295	3,124	39,845
Total ending allowance balance	\$20,465	\$12,752	\$2,454	\$559	\$3,586	\$344	\$3,124	\$43,284
Loans:								
Loans individually evaluated for impairment	\$5,988	\$9,061	\$471	\$12	\$1,827	\$59	\$0	\$17,418
Loans collectively evaluated for impairment	1,199,911	1,156,427	272,752	83,600	330,021	53,171	0	3,095,882
Total ending loans balance	\$1,205,899	\$1,165,488	\$273,223	\$83,612	\$331,848	\$53,230	\$0	\$3,113,300

Commercial
Real Estate

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

	Commercial and Industrial	and Multi-family Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
(dollars in thousands) December 31, 2015								
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$2,781	\$465	\$0	\$5	\$358	\$50	\$0	\$3,659
Collectively evaluated for impairment	18,783	12,008	2,445	569	3,037	269	2,840	39,951
Total ending allowance balance	\$21,564	\$12,473	\$2,445	\$574	\$3,395	\$319	\$2,840	\$43,610
Loans:								
Loans individually evaluated for impairment	\$8,286	\$9,823	\$471	\$12	\$1,927	\$60	\$0	\$20,579
Loans collectively evaluated for impairment	1,171,407	1,119,150	305,707	85,059	330,072	48,955	0	3,060,350
Total ending loans balance	\$1,179,693	\$1,128,973	\$306,178	\$85,071	\$331,999	\$49,015	\$0	\$3,080,929

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2016:

(dollars in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	\$20	\$20	\$0
Non-working capital loans	2,351	584	0
Commercial real estate and multi-family residential loans:			
Owner occupied loans	2,701	2,520	0
Nonowner occupied loans	4,760	4,763	0
Agri-business and agricultural loans:			
Loans secured by farmland	969	471	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	72	34	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	1,406	1,405	625
Non-working capital loans	4,379	3,979	1,916
Commercial real estate and multi-family residential loans:			
Construction and land development loans	339	339	46
Owner occupied loans	942	941	235
Nonowner occupied loans	185	115	20
Multifamily loans	383	383	129
Other commercial loans	12	12	4
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,611	1,544	391
Open end and junior lien loans	249	249	24
Other consumer loans	59	59	49
Total	\$20,438	\$17,418	\$3,439

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2015:

(dollars in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	\$20	\$20	\$0
Non-working capital loans	2,390	623	0
Commercial real estate and multi-family residential loans:			
Owner occupied loans	3,762	3,223	0
Nonowner occupied loans	4,894	4,898	0
Agri-business and agricultural loans:			
Loans secured by farmland	969	471	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	45	45	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	1,318	1,318	535
Non-working capital loans	8,617	6,325	2,246
Commercial real estate and multi-family residential loans:			
Construction and land development loans	364	364	71
Owner occupied loans	949	949	232
Multifamily loans	389	389	162
Other commercial loans	12	12	5
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,695	1,629	331
Open end and junior lien loans	253	253	27
Other consumer loans	60	60	50
Total	\$25,737	\$20,579	\$3,659

The following table presents loans individually evaluated for impairment by class of loans as of and for the three-month period ended March 31, 2016:

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	\$20	\$0	\$0
Non-working capital loans	673	0	0
Commercial real estate and multi-family residential loans:			
Owner occupied loans	2,724	0	0
Nonowner occupied loans	4,808	29	23
Agri-business and agricultural loans:			
Loans secured by farmland	471	0	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	47	0	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	1,352	5	5
Non-working capital loans	4,635	34	34
Commercial real estate and multi-family residential loans:			
Construction and land development loans	339	3	3
Owner occupied loans	942	0	0
Nonowner occupied loans	77	0	0
Multifamily loans	385	5	5
Other commercial loans	12	0	0
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,627	15	11
Open end and junior lien loans	251	0	0
Other consumer loans	59	1	1

Total	\$18,422	\$92	\$82
-------	----------	------	------

The following table presents loans individually evaluated for impairment by class of loans as of and for the three-month period ended March 31, 2015:

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	\$21	\$0	\$0
Non-working capital loans	364	1	1
Commercial real estate and multi-family residential loans:			
Construction and land development loans	526	0	0
Owner occupied loans	544	0	0
Nonowner occupied loans	2,517	28	29
Agri-business and agricultural loans:			
Loans secured by farmland	283	0	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	160	0	0
Open end and junior lien loans	338	0	0
Residential construction loans	42	0	0
Other consumer loans	1	0	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	1,012	9	7
Non-working capital loans	12,566	122	123
Commercial real estate and multi-family residential loans:			
Construction and land development loans	448	4	4
Owner occupied loans	5,649	21	22
Nonowner occupied loans	3,269	0	0
Agri-business and agricultural loans:			
Loans secured by farmland	201	0	0
Other commercial loans	10	0	0
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	3,014	17	14
Open end and junior lien loans	34	0	0

Other consumer loans	121	1	1
Total	\$31,120	\$203	\$201

The following table presents the aging of the recorded investment in past due loans as of March 31, 2016 by class of loans:

(dollars in thousands)	Loans Not Past Due	30-89 Days Past Due	Greater than 90 Days Past Due	Nonaccrual	Total Past Due	Total
Commercial and industrial loans:						
Working capital lines of credit loans	\$589,464	\$30	\$0	\$999	\$1,029	\$590,493
Non-working capital loans	610,595	2,898	0	1,913	4,811	615,406
Commercial real estate and multi-family residential loans:						
Construction and land development loans	206,025	0	0	0	0	206,025
Owner occupied loans	443,821	0	0	3,453	3,453	447,274
Nonowner occupied loans	407,681	0	0	264	264	407,945
Multifamily loans	104,244	0	0	0	0	104,244
Agri-business and agricultural loans:						
Loans secured by farmland	144,227	0	0	471	471	144,698
Loans for agricultural production	128,525	0	0	0	0	128,525
Other commercial loans	83,612	0	0	0	0	83,612
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	160,268	911	0	227	1,138	161,406
Open end and junior lien loans	161,623	104	0	249	353	161,976
Residential construction loans	8,466	0	0	0	0	8,466
Other consumer loans	53,146	84	0	0	84	53,230
Total	\$3,101,697	\$4,027	\$0	\$7,576	\$11,603	\$3,113,300

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

The following table presents the aging of the recorded investment in past due loans as of December 31, 2015 by class of loans:

(dollars in thousands)	Loans Not Past Due	30-89 Days Past Due	Greater than 90 Days Past Due	Nonaccrual	Total Past Due	Total
Commercial and industrial loans:						
Working capital lines of credit loans	\$579,081	\$350	\$0	\$913	\$1,263	\$580,344
Non-working capital loans	595,154	0	0	4,195	4,195	599,349
Commercial real estate and multi-family residential loans:						
Construction and land development loans	230,336	0	0	0	0	230,336
Owner occupied loans	407,229	310	0	4,172	4,482	411,711
Nonowner occupied loans	404,146	423	0	3,000	3,423	407,569
Multi-family loans	79,357	0	0	0	0	79,357
Agri-business and agricultural loans:						
Loans secured by farmland	163,911	0	0	471	471	164,382
Loans for agricultural production	141,706	90	0	0	90	141,796
Other commercial loans	85,071	0	0	0	0	85,071
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	156,525	1,187	0	49	1,236	157,761
Open end and junior lien loans	164,582	83	0	253	336	164,918
Residential construction loans	9,320	0	0	0	0	9,320
Other consumer loans	48,687	328	0	0	328	49,015
Total	\$3,065,105	\$2,771	\$0	\$13,053	\$15,824	\$3,080,929

Troubled Debt Restructurings:

Troubled debt restructured loans are included in the totals for impaired loans. The Company has allocated \$2.0 million and \$2.3 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2016 and December 31, 2015. The Company is not committed to lend additional funds to debtors whose loans have been modified in a troubled debt restructuring.

(dollars in thousands)	March 31, 2016	December 31, 2015
Accruing troubled debt restructured loans	\$8,590	\$6,260
Nonaccrual troubled debt restructured loans	5,519	10,914
Total troubled debt restructured loans	\$14,109	\$17,174

During the quarter ended March 31, 2016, certain loans were modified as troubled debt restructurings. The modified terms of these loans include one or a combination of the following: inadequate compensation for the terms of the restructure or renewal; a modification of the repayment terms which delays principal repayment for some period; or renewal terms offered to borrowers in financial distress where no additional credit enhancements were obtained at the time of renewal.

Additional concessions were granted to borrowers with previously identified troubled debt restructured loans during the period. The loans to two of the borrowers are for commercial real estate buildings where the collateral value and cash flows from the companies occupying the buildings do not support the loans with recorded investments of \$542,000. The other loans were to a borrower engaged in land development, where the aggregate recorded investment totaled \$484,000. These concessions are not included in table below.

(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Repayment Terms Number of Loans	Extension Period or Range (in months)
Troubled Debt Restructurings Commercial real estate and multi- family residential loans:					
Owner occupied loans	1	\$335	\$335	1	15
Total	1	\$335	\$335	1	15

For the period ended March 31, 2016, the commercial real estate and multi-family residential loan troubled debt restructuring described above increased the allowance for loan losses by \$11,000.

No charge-offs resulted from any troubled debt restructurings described above during the period ending March 31, 2016.

During the quarter ended March 31, 2015 one loan was modified as a troubled debt restructuring. There were renewal terms offered to the one borrower under financial duress which did not require additional compensation or consideration, and the terms offered would not have been readily available in the marketplace for loans bearing similar risk profiles. In this instance, it was determined that a concession had been granted. It is difficult to quantify the concession granted due to an absence of readily available market terms to be used for comparison. The loan to the borrower is for a commercial real estate building where the collateral value and cash flows from the company occupying the building did not support the loan with a recorded investment of \$788,000.

The following table presents loans by class modified as new troubled debt restructurings that occurred during the quarter ended March 31, 2015:

(dollars in thousands)	Number of Loans	All Modifications	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings Commercial real estate and multi- family residential loans:			
Owner occupied loans	1	\$788	\$788
Total	1	\$788	\$788

For the period ended March 31, 2015, the commercial real estate and multi-family residential loan troubled debt restructuring described above increased the allowance for loan losses by \$6,000.

No charge-offs resulted from the troubled debt restructuring described above during the three-month period ended March 31, 2015.

There were no troubled debt restructurings that had payment defaults within the twelve months following modification during the three month period ended March 31, 2016 and the three month period ended March 31, 2015.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes commercial loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis for Special Mention, Substandard and Doubtful grade loans and annually on Pass grade loans over \$150,000.

The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as Special Mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as Substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts,

conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be Pass rated loans with the exception of consumer troubled debt restructurings which are evaluated and listed with Substandard commercial grade loans and consumer nonaccrual loans which are evaluated individually and listed with Not Rated loans. Loans listed as Not Rated are consumer loans or commercial loans with consumer characteristics included in groups of homogenous loans which are analyzed for credit quality indicators utilizing delinquency status. As of March 31, 2016, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial and industrial loans:						
Working capital lines of credit loans	\$547,736	\$32,071	\$10,686	\$0	\$0	\$590,493
Non-working capital loans	570,026	32,443	9,563	0	3,374	615,406
Commercial real estate and multi- family residential loans:						
Construction and land development loans	203,447	2,222	356	0	0	206,025
Owner occupied loans	405,284	31,477	10,513	0	0	447,274
Nonowner occupied loans	401,824	3,655	2,466	0	0	407,945
Multifamily loans	103,861	0	383	0	0	104,244
Agri-business and agricultural loans:						
Loans secured by farmland	144,227	0	471	0	0	144,698
Loans for agricultural production	128,525	0	0	0	0	128,525
Other commercial loans	83,596	0	11	0	5	83,612
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	47,526	126	1,174	0	112,580	161,406
Open end and junior lien loans	6,206	0	1,616	0	154,154	161,976
Residential construction loans	0	0	0	0	8,466	8,466
Other consumer loans	13,302	0	59	0	39,869	53,230
Total	\$2,655,560	\$101,994	\$37,298	\$0	\$318,448	\$3,113,300

As of December 31, 2015, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial and industrial loans:						
Working capital lines of credit loans	\$538,899	\$32,601	\$8,844	\$0	\$0	\$580,344
Non-working capital loans	549,771	35,910	10,566	0	3,102	599,349
Commercial real estate and multi- family residential loans:						
Construction and land development loans	227,996	2,340	0	0	0	230,336

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

Owner occupied loans	378,847	23,522	9,342	0	0	411,711
Nonowner occupied loans	394,387	10,953	2,229	0	0	407,569
Multi-family loans	78,968	0	389	0	0	79,357
Agri-business and agricultural loans:						
Loans secured by farmland	163,911	0	471	0	0	164,382
Loans for agricultural production	141,796	0	0	0	0	141,796
Other commercial loans	85,056	0	12	0	3	85,071
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	43,231	126	1,769	0	112,635	157,761
Open end and junior lien loans	8,373	0	1,616	0	154,929	164,918
Residential construction loans	0	0	0	0	9,320	9,320
Other consumer loans	13,940	0	60	0	35,015	49,015
Total	\$2,625,175	\$105,452	\$35,298	\$0	\$315,004	\$3,080,929

NOTE 5. FAIR VALUE DISCLOSURES

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1	Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
Level 2	Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3	Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities: Securities available for sale are valued primarily by a third party pricing service. The fair values of securities available for sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or pricing models which utilize significant observable inputs such as matrix pricing. This is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). These models utilize the market approach with standard inputs that include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. For certain municipal securities that are not rated and observable inputs about the specific issuer are not available, fair values are estimated using observable data from other municipal securities presumed to be similar or other market data on other non-rated municipal securities (Level 3 inputs).

The Company's Controlling Department, which is responsible for all accounting and SEC compliance, and the Company's Treasury Department, which is responsible for investment portfolio management and asset/liability modeling, are the two areas that determine the Company's valuation policies and procedures. Both of these areas report directly to the Executive Vice President and Chief Financial Officer of the Company. For assets or liabilities that may be considered for Level 3 fair value measurement on a recurring basis, these two departments and the Executive Vice President and Chief Financial Officer determine the appropriate level of the assets or liabilities under consideration. If there are assets or liabilities that are determined to be Level 3 by this group, the Risk Management Committee of the Company and the Audit Committee of the Board of Directors are made aware of such assets at their next scheduled meeting.

Securities pricing is obtained from a third party pricing service and a representative sample of security prices is tested at least annually against prices from another third party provider and reviewed with a market value price tolerance variance of +/-3%. If any securities fall outside the tolerance threshold, they are reviewed in more detail to determine why the variance exists. The percentage deviation of the market value exceptions to the total market value of the

sample is applied to the entire portfolio to determine if the exceptions are material and additional security prices need to be tested. Changes in market value are reviewed monthly in aggregate yield by security type and any material differences are reviewed to determine why they exist. At least annually, the pricing methodology of the pricing service is received and reviewed to support the fair value levels used by the Company. A detailed pricing evaluation is requested and reviewed on any security determined to be fair valued using unobservable inputs by the pricing service.

Mortgage banking derivatives: The fair value of mortgage banking derivatives are based on observable market data as of the measurement date (Level 2).

Interest rate swap derivatives: Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. The fair value of interest rate swap derivatives is determined by pricing or valuation models using observable market data as of the measurement date (Level 2).

Impaired loans: Impaired loans with specific allocations of the allowance for loan losses are generally based on the fair value of the underlying collateral if repayment is expected solely from the collateral. Fair value is determined using several methods. Generally, the fair value of real estate is based on appraisals by qualified third party appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and result in a Level 3 classification of the inputs for determining fair value. In addition, the Company's management routinely applies internal discount factors to the value of appraisals used in the fair value evaluation of impaired loans. The deductions to the appraisals take into account changing business factors and market conditions, as well as value impairment in cases where the appraisal date predates a likely change in market conditions. Commercial real estate is generally discounted from its appraised value by 0-50% with the higher discounts applied to real estate that is determined to have a thin trading market or to be specialized collateral. In addition to real estate, the Company's management evaluates other types of collateral as follows: (a) raw and finished inventory is discounted from its cost or book value by 35-65%, depending on the marketability of the goods; (b) finished goods are generally discounted by 30-60%, depending on the ease of marketability, cost of transportation or scope of use of the finished good; (c) work in process inventory is typically discounted by 50-100%, depending on the length of manufacturing time, types of components used in the completion process, and the breadth of the user base; (d) equipment is valued at a percentage of depreciated book value or recent appraised value, if available, and is typically discounted at 30-70% after various considerations including age and condition of the equipment, marketability, breadth of use, and whether the equipment includes unique components or add-ons; and (e) marketable securities are discounted by 10-30%, depending on the type of investment, age of valuation report and general market conditions. This methodology is based on a market approach and typically results in a Level 3 classification of the inputs for determining fair value.

Mortgage servicing rights: As of March 31, 2016 the fair value of the Company's Level 3 servicing assets for residential mortgage loans was \$3.1 million, none of which are currently impaired and therefore are carried at amortized cost. These residential mortgage loans have a weighted average interest rate of 3.94%, a weighted average maturity of 19 years and are secured by homes generally within the Company's market area, which is primarily Northern Indiana. A valuation model is used to estimate fair value by stratifying the portfolios on the basis of certain risk characteristics, including loan type and interest rate. Impairment is estimated based on an income approach. The inputs used include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, late fees, and float income. The most significant assumption used to value mortgage servicing rights is prepayment rate. Prepayment rates are estimated based on published industry consensus prepayment rates. The most significant unobservable assumption is the discount rate. At March 31, 2016, the constant prepayment speed (PSA) used was 212 and the discount rate used was 9.4%. At December 31, 2015, the PSA used was 181 and the discount rate used was 9.4%.

Other real estate owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property and are reviewed by the Company's internal appraisal officer. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable properties used to determine value. Such adjustments are usually significant and result in a Level 3 classification. In addition, the Company's management may apply discount factors to the appraisals to take into account changing business factors and market conditions, as well as value impairment in cases where the appraisal date predates a likely change in market conditions. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Real estate mortgage loans held for sale: Real estate mortgage loans held for sale are carried at the lower of cost or fair value, as determined by outstanding commitments, from third party investors, and result in a Level 2 classification.

The table below presents the balances of assets measured at fair value on a recurring basis:

(dollars in thousands)	March 31, 2016			Assets at Fair Value
	Level 1	Fair Value Measurements Using Level 2	Level 3	
Assets				
U.S. Treasury securities	\$ 1,034	\$ 0	\$ 0	\$ 1,034
U.S. government sponsored agency securities	0	7,191	0	7,191
Mortgage-backed securities	0	359,727	0	359,727
State and municipal securities	0	116,462	849	117,311
Total Securities	1,034	483,380	849	485,263
Mortgage banking derivative	0	316	0	316
Interest rate swap derivative	0	5,295	0	5,295
Total assets	\$ 1,034	\$ 488,991	\$ 849	\$ 490,874
Liabilities				
Mortgage banking derivative	0	20	0	20
Interest rate swap derivative	0	5,624	0	5,624
Total liabilities	\$ 0	\$ 5,644	\$ 0	\$ 5,644

(dollars in thousands)	December 31, 2015			Assets at Fair Value
	Level 1	Fair Value Measurements Using Level 2	Level 3	
Assets				
U.S. Treasury securities	\$ 1,003	\$ 0	\$ 0	\$ 1,003
U.S. government sponsored agency securities	0	7,120	0	7,120
Mortgage-backed securities	0	360,672	0	360,672
State and municipal securities	0	108,725	551	109,276
Total Securities	1,003	476,517	551	478,071
Mortgage banking derivative	0	165	0	165
Interest rate swap derivative	0	1,732	0	1,732
Total assets	\$ 1,003	\$ 478,414	\$ 551	\$ 479,968
Liabilities				
Mortgage banking derivative	0	1	0	1
Interest rate swap derivative	0	1,748	0	1,748
Total liabilities	\$ 0	\$ 1,749	\$ 0	\$ 1,749

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2016 and there were no transfers between Level 1 and Level 2 during 2015.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended March 31, 2016 and 2015:

(dollars in thousands)	State and Municipal Securities	
	2016	2015
Balance of recurring Level 3 assets at January 1	\$ 551	\$ 850
Transfers into Level 3	339	0
Changes in fair value of securities included in other comprehensive income	(1)	0
Principal payments	(40)	(40)
Balance of recurring Level 3 assets at March 31	\$ 849	\$ 810

The fair values of two municipal securities with a fair value of \$339,000 as of March 31, 2016 were transferred from Level 2 and into Level 3 because of a lack of observable market data for these investments. The Company's policy is to recognize transfers as of the end of the reporting period. As a result the fair value for these municipal securities was transferred on March 31, 2016. The municipal securities measured at fair value included below are non-rated Indiana and Ohio municipal revenue bonds and are not actively traded.

Quantitative Information about Level 3 Fair Value Measurements

(dollars in thousands)	Fair Value at 3/31/2016	Valuation Technique	Unobservable Input	Range of Inputs
				(Average)
State and municipal securities	\$ 849	Price to type, par, call	Discount to benchmark index	0-6% (3.28%)

Quantitative Information about Level 3 Fair Value Measurements

(dollars in thousands)	Fair Value at 12/31/2015	Valuation Technique	Unobservable Input	Range of Inputs
				(Average)
State and municipal securities	\$ 551	Price to type, par, call	Discount to benchmark index	0-5% (2.82%)

The primary methodology used in the fair value measurement of the Company's state and municipal securities classified as Level 3 is a discount to the AAA municipal benchmark index. Significant increases or (decreases) in this

index as well as the degree to which the security differs in ratings, coupon, call and duration will result in a higher or (lower) fair value measurement for those securities that are not callable. For those securities that are continuously callable, a slight premium to par is used.

The table below presents the balances of assets measured at fair value on a nonrecurring basis:

(dollars in thousands)	March 31, 2016			Assets at Fair Value
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Assets				
Impaired loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 0	\$ 0	\$ 749	\$ 749
Non-working capital loans	0	0	1,882	1,882
Commercial real estate and multi-family residential loans:				
Construction and land development loans	0	0	293	293
Owner occupied loans	0	0	706	706
Nonowner occupied loans	0	0	95	95
Multifamily loans	0	0	254	254
Other commercial loans	0	0	7	7
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	0	0	371	371
Open end and junior lien loans	0	0	225	225
Total impaired loans	\$ 0	\$ 0	\$ 4,582	\$ 4,582
Other real estate owned	0	0	75	75
Total assets	\$ 0	\$ 0	\$ 4,657	\$ 4,657

(dollars in thousands)	December 31, 2015			Assets at Fair Value
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Assets				
Impaired loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 0	\$ 0	\$ 753	\$ 753
Non-working capital loans	0	0	2,083	2,083
Commercial real estate and multi-family residential loans:				
Construction and land development loans	0	0	293	293

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

Owner occupied loans	0	0	717	717
Multifamily loans	0	0	227	227
Other commercial loans	0	0	7	7
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	0	0	245	245
Open end and junior lien loans	0	0	226	226
Total impaired loans	\$ 0	\$ 0	\$ 4,551	\$ 4,551
Other real estate owned	0	0	75	75
Total assets	\$ 0	\$ 0	\$ 4,626	\$ 4,626

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at March 31, 2016:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Impaired loans:					
Commercial and industrial	\$ 2,631	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	42%	(7% - 100%)
Impaired loans:					
Commercial real estate	1,348	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	24%	(13% - 54%)
Impaired loans:					
Other commercial	7	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	35%	
Impaired loans:					
Consumer 1-4 family mortgage	596	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	25%	(10% - 71%)
Other real estate owned	75	Appraisals	Discount to reflect current market conditions	49%	

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at December 31, 2015:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Impaired loans:					
Commercial and industrial	\$ 2,836	Collateral based measurements	Discount to reflect current market conditions	46%	(5% - 100%)

			and ultimate collectability		
Impaired loans:					
Commercial real estate	1,237	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	31%	(19% - 53%)
Impaired loans:					
Other commercial	7	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	43%	
Impaired loans:					
Consumer 1-4 family mortgage	471	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	26%	(11% - 42%)
Other real estate owned	75	Appraisals	Discount to reflect current market conditions	49%	

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a gross carrying amount of \$7.1 million, with a valuation allowance of \$2.5 million at March 31, 2016, resulting in a net increase in the provision for loan losses of \$100,000 in the three months ended March 31, 2016. At March 31, 2015, impaired loans had a gross carrying amount of \$14.4 million, with a valuation allowance of \$2.8 million, resulting in a net reduction in the provision for loan losses of \$700,000 in the three months ended March 31, 2015.

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

Other real estate owned measured at fair value less costs to sell, at both March 31, 2016 and March 31, 2015, had a net carrying amount of \$75,000, which is made up of the outstanding balance of \$147,000, net of a valuation allowance of \$72,000, all of which was written down during 2012.

The following table contains the estimated fair values and the related carrying values of the Company's financial instruments. Items which are not financial instruments are not included.

(dollars in thousands)	Carrying Value	March 31, 2016			Total
		Level 1	Estimated Fair Value		
		Level 2	Level 3		
Financial Assets:					
Cash and cash equivalents	\$ 80,738	\$ 78,483	\$ 2,260	\$ 0	\$ 80,743
Securities available for sale	485,263	1,034	483,380	849	485,263
Real estate mortgages held for sale	2,186	0	2,237	0	2,237
Loans, net	3,070,016	0	0	3,069,500	3,069,500
Federal Home Loan Bank stock	4,248	N/A	N/A	N/A	N/A
Federal Reserve Bank stock	3,420	N/A	N/A	N/A	N/A
Accrued interest receivable	10,030	8	1,993	8,029	10,030
Financial Liabilities:					
Certificates of deposit	(1,115,126)	0	(1,121,429)	0	(1,121,429)
All other deposits	(2,135,609)	(2,135,609)	0	0	(2,135,609)
Securities sold under agreements to repurchase	(59,504)	0	(59,504)	0	(59,504)
Other short-term borrowings	(35,000)	0	(35,001)	0	(35,001)
Long-term borrowings	(32)	0	(35)	0	(35)
Subordinated debentures	(30,928)	0	0	(31,215)	(31,215)
Standby letters of credit	(317)	0	0	(317)	(317)
Accrued interest payable	(4,212)	(91)	(4,118)	(3)	(4,212)

(dollars in thousands)	Carrying Value	December 31, 2015			Total
		Level 1	Estimated Fair Value		
		Level 2	Level 3		
Financial Assets:					
Cash and cash equivalents	\$ 80,674	\$ 79,074	\$ 1,602	\$ 0	\$ 80,676
Securities available for sale	478,071	1,003	476,517	551	478,071
Real estate mortgages held for sale	3,294	0	3,340	0	3,340
Loans, net	3,037,319	0	0	3,029,533	3,029,533
Federal Home Loan Bank stock	4,248	N/A	N/A	N/A	N/A
Federal Reserve Bank stock	3,420	N/A	N/A	N/A	N/A
Accrued interest receivable	9,462	3	2,301	7,158	9,462
Financial Liabilities:					
Certificates of deposit	(997,514)	0	(1,002,452)	0	(1,002,452)
All other deposits	(2,185,907)	(2,185,907)	0	0	(2,185,907)

Securities sold under agreements					
to repurchase	(69,622)	0	(69,622)	0	(69,622)
Other short-term borrowings	(70,000)	0	(70,003)	0	(70,003)
Long-term borrowings	(34)	0	(37)	0	(37)
Subordinated debentures	(30,928)	0	0	(31,211)	(31,211)
Standby letters of credit	(381)	0	0	(381)	(381)
Accrued interest payable	(3,773)	(86)	(3,684)	(3)	(3,773)

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and cash equivalents - The carrying amount of cash and cash equivalents approximate fair value and are classified as Level 1, with the exception of certificates of deposits, which are estimated using discounted cash flow analysis using current market rates applied to the estimated life resulting in a Level 2 classification.

Loans, net – Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using current market rates applied to the estimated life of the loan resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Federal Home Loan Bank stock and Federal Reserve Bank stock– It is not practical to determine the fair value of Federal Home Loan Bank stock and Federal Reserve Bank stock due to restrictions placed on its transferability.

Certificates of deposit - Fair values of certificates of deposit are estimated using discounted cash flow analyses using current market rates applied to the estimated life resulting in a Level 2 classification.

All other deposits- The fair values for all other deposits other than certificates of deposit are equal to the amount payable on demand (the carrying value) resulting in a Level 1 classification.

Securities sold under agreements to repurchase – The carrying amount of borrowings under repurchase agreements approximates their fair values resulting in a Level 2 classification.

Federal funds purchased – The carrying amount of federal funds purchased approximates their fair values resulting in a Level 2 classification.

Other short-term borrowings – The fair value of other short-term borrowings is estimated using discounted cash flow analysis based on current borrowing rates resulting in a Level 2 classification.

Long-term borrowings – The fair value of long-term borrowings is estimated using discounted cash flow analyses based on current borrowing rates resulting in a Level 2 classification.

Subordinated debentures - The fair value of subordinated debentures is based on the rates currently available to the Company with similar term and remaining maturity and credit spread resulting in a Level 3 classification.

Standby letters of credit – The fair value of off-balance sheet items is based on the current fees and costs that would be charged to enter into or terminate such arrangements resulting in a Level 3 classification.

Accrued interest receivable/payable – The carrying amounts of accrued interest approximates fair value resulting in a Level 1, Level 2 or Level 3 classification which is consistent with its associated asset/liability.

NOTE 6. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase represent collateralized borrowings with customers located primarily within the Company's service area. These repurchase liabilities are not covered by federal deposit insurance and are secured by securities owned. The Company retains the right to substitute similar type securities and has the right to withdraw all excess collateral applicable to the repurchase liabilities whenever the collateral values are in excess of the related repurchase liabilities. However, as a means of mitigating market risk, the Company maintains excess collateral to cover normal changes in the repurchase liability by monitoring daily usage. The Company maintains

control of the securities through the use of third-party safekeeping arrangements.

Securities sold under agreements to repurchase of \$59.5 million and \$69.6 million, which mature on demand, are secured by mortgage-backed securities with a carrying amount of \$110.7 million and \$117.5 million at March 31, 2016 and December 31, 2015, respectively. Additional information concerning recognition of these liabilities is disclosed in Note 8.

NOTE 7. EMPLOYEE BENEFIT PLANS

Components of net periodic benefit cost:

(dollars in thousands)	Three Months Ended March 31,			
	Pension Benefits		SERP Benefits	
	2016	2015	2016	2015
Interest cost	\$26	\$26	\$12	\$11
Expected return on plan assets	(35)	(35)	(18)	(19)
Recognized net actuarial (gain) loss	34	40	20	21
Net pension expense (benefit)	\$25	\$31	\$14	\$13

The Company previously disclosed in its financial statements for the year ended December 31, 2015 that it expected to contribute \$321,000 to its pension plan and \$76,000 to its Supplemental Executive Retirement Plan (“SERP”) in 2016. The Company has contributed \$102,000 to its pension plan and \$76,000 to its SERP as of March 31, 2016. The Company expects to contribute \$219,000 to its pension plan during the remainder of 2016. The Company does not expect to make any additional contributions to its SERP during the remainder of 2016.

NOTE 8. OFFSETTING ASSETS AND LIABILITIES

The following tables summarize gross and net information about financial instruments and derivative instruments that are offset in the statement of financial position or that are subject to an enforceable master netting arrangement at March 31, 2016 and December 31, 2015.

(dollars in thousands)	Gross Amounts of Recognized Assets/ Liabilities	Gross Amounts Offset in the Statement of Financial Position	March 31, 2016		Net Amount
			Net Amounts of Assets presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	
				Cash Collateral Received	
Assets					
Interest Rate Swap					
Derivatives	\$5,295	\$0	\$5,295	\$0	\$5,295
Total Assets	\$5,295	\$0	\$5,295	\$0	\$5,295
Liabilities					
Interest Rate Swap					
Derivatives	\$5,624	\$0	\$5,624	\$0	\$314
	59,504	0	59,504	(59,504)	0

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

Repurchase Agreements						
Total Liabilities	\$65,128	\$0	\$65,128	\$(59,504)	\$(5,310)	\$314
December 31, 2015						
	Gross Amounts of Recognized Assets/ Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Instruments	Cash Collateral Received	Net Amount
(dollars in thousands) Assets						
Interest Rate Swap Derivatives	\$1,732	\$0	\$1,732	\$0		