

LAKELAND FINANCIAL CORP

Form 10-Q

May 10, 2013

---

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, 2013

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, 2013: 16,424,481

---

LAKELAND FINANCIAL CORPORATION  
Form 10-Q Quarterly Report  
Table of Contents

PART I.

	Page Number
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	44
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	57
Item 4. <u>Controls and Procedures</u>	57

PART II.

	Page Number
Item 1. <u>Legal Proceedings</u>	59
Item 1A. <u>Risk Factors</u>	59
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	59
Item 3. <u>Defaults Upon Senior Securities</u>	59
Item 4. <u>Mine Safety Disclosures</u>	60
Item 5. <u>Other Information</u>	60
Item 6. <u>Exhibits</u>	60
Form 10-Q <u>Signature Page</u>	61

---

PART I  
LAKELAND FINANCIAL CORPORATION  
ITEM 1 – FINANCIAL STATEMENTS

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of March 31, 2013 and December 31, 2012  
(in thousands except for share data)

(Page 1 of 2)

	March 31, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$ 66,776	\$ 156,666
Short-term investments	8,891	75,571
Total cash and cash equivalents	75,667	232,237
Securities available for sale (carried at fair value)	482,704	467,021
Real estate mortgage loans held for sale	6,629	9,452
Loans, net of allowance for loan losses of \$50,818 and \$51,445	2,211,642	2,206,075
Land, premises and equipment, net	34,502	34,840
Bank owned life insurance	61,574	61,112
Accrued income receivable	9,235	8,491
Goodwill	4,970	4,970
Other intangible assets	35	47
Other assets	40,744	39,899
Total assets	\$ 2,927,702	\$ 3,064,144

(continued)



LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of March 31, 2013 and December 31, 2012  
(in thousands except for share data)

(Page 2 of 2)

	March 31, 2013 (Unaudited)	December 31, 2012
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Noninterest bearing deposits	\$ 386,509	\$ 407,926
Interest bearing deposits	2,064,679	2,173,830
<b>Total deposits</b>	<b>2,451,188</b>	<b>2,581,756</b>
<b>Short-term borrowings</b>		
Securities sold under agreements to repurchase	113,515	121,883
<b>Total short-term borrowings</b>	<b>113,515</b>	<b>121,883</b>
Accrued expenses payable	18,116	15,321
Other liabilities	7,244	1,390
Long-term borrowings	37	15,038
Subordinated debentures	30,928	30,928
<b>Total liabilities</b>	<b>2,621,028</b>	<b>2,766,316</b>
<b>EQUITY</b>		
Common stock: 90,000,000 shares authorized, no par value		
16,424,481 shares issued and 16,333,922 outstanding as of March 31, 2013		
16,377,247 shares issued and 16,290,136 outstanding as of December 31, 2012	90,459	90,039
Retained earnings	212,900	203,654
Accumulated other comprehensive income	4,988	5,689
Treasury stock, at cost (2013 - 90,559 shares, 2012 - 87,111 shares)	(1,762)	(1,643)
<b>Total stockholders' equity</b>	<b>306,585</b>	<b>297,739</b>
Noncontrolling interest	89	89
<b>Total equity</b>	<b>306,674</b>	<b>297,828</b>
<b>Total liabilities and equity</b>	<b>\$ 2,927,702</b>	<b>\$ 3,064,144</b>

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

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
For the Three Months Ended March 31, 2013 and 2012  
(in thousands except for share and per share data)

(Unaudited)

(Page 1 of 2)

	Three Months Ended March 31,	
	2013	2012
<b>NET INTEREST INCOME</b>		
Interest and fees on loans		
Taxable	\$ 24,486	\$ 26,191
Tax exempt	102	112
Interest and dividends on securities		
Taxable	945	2,764
Tax exempt	735	697
Interest on short-term investments	24	11
Total interest income	26,292	29,775
Interest on deposits	4,637	6,761
Interest on borrowings		
Short-term	91	113
Long-term	307	404
Total interest expense	5,035	7,278
<b>NET INTEREST INCOME</b>	<b>21,257</b>	<b>22,497</b>
Provision for loan losses	0	799
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>21,257</b>	<b>21,698</b>
<b>NONINTEREST INCOME</b>		
Wealth advisory fees	944	914
Investment brokerage fees	949	800
Service charges on deposit accounts	1,971	1,881
Loan, insurance and service fees	1,456	1,189
Merchant card fee income	276	316
Other income	1,375	665
Mortgage banking income	509	592
Net securities gains	1	3
Other than temporary impairment loss on available-for-sale securities:		
Total impairment losses recognized on securities	0	(510)
Loss recognized in other comprehensive income	0	0

Net impairment loss recognized in earnings	0	(510)
Total noninterest income	7,481	5,850

(continued)

3

---

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
For the Three Months Ended March 31, 2013 and 2012  
(in thousands except for share and per share data)

(Unaudited)

(Page 2 of 2)

	Three Months Ended March 31,	
	2013	2012
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	9,165	9,075
Net occupancy expense	846	885
Equipment costs	609	617
Data processing fees and supplies	1,293	841
Other expense	2,980	3,262
Total noninterest expense	14,893	14,680
<b>INCOME BEFORE INCOME TAX EXPENSE</b>		
	13,845	12,868
Income tax expense	4,599	4,242
<b>NET INCOME</b>	<b>\$ 9,246</b>	<b>\$ 8,626</b>
<b>BASIC WEIGHTED AVERAGE COMMON SHARES</b>		
	16,408,710	16,280,416
<b>BASIC EARNINGS PER COMMON SHARE</b>	<b>\$ 0.56</b>	<b>\$ 0.53</b>
<b>DILUTED WEIGHTED AVERAGE COMMON SHARES</b>		
	16,527,171	16,439,243
<b>DILUTED EARNINGS PER COMMON SHARE</b>	<b>\$ 0.56</b>	<b>\$ 0.52</b>

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



LAKELAND FINANCIAL CORPORATION  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 For the Three Months Ended March 31, 2013 and 2012  
 (in thousands)

(Unaudited)

	Three months ended March 31,	
	2013	2012
Net income	\$ 9,246	\$ 8,626
Other comprehensive income (loss)		
Change in securities available for sale:		
Unrealized holding gain (loss) on securities available for sale		
arising during the period	(1,040)	1,250
Reclassification adjustment for gains included in net income	(1)	(3)
Reclassification adjustment for other than temporary impairment	0	510
Net securities gain (loss) activity during the period	(1,041)	1,757
Tax effect	397	(746)
Net of tax amount	(644)	1,011
Defined benefit pension plans:		
Net gain (loss) on defined benefit pension plans	(151)	110
Amortization of net actuarial loss	55	44
Net gain (loss) activity during the period	(96)	154
Tax effect	39	(63)
Net of tax amount	(57)	91
Total other comprehensive income (loss), net of tax	(701)	1,102
Comprehensive income	\$ 8,545	\$ 9,728

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



LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
For the Three Months Ended March 31, 2013 and 2012  
(in thousands except for share and per share data)  
(Unaudited)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2012	\$ 87,380	\$ 181,903	\$ 5,139	\$ (1,222)	\$ 273,200
Net income		8,626			8,626
Other comprehensive income (loss), net of tax			1,102		1,102
Common stock cash dividends declared, \$.155 per share		(2,515)			(2,515)
Treasury shares purchased under deferred directors' plan (6,683 shares)	172			(172)	0
Stock activity under stock compensation plans (98,581 shares)	30				30
Stock compensation expense	428				428
Balance at March 31, 2012	\$ 88,010	\$ 188,014	\$ 6,241	\$ (1,394)	\$ 280,871
Balance at January 1, 2013	\$ 90,039	\$ 203,654	\$ 5,689	\$ (1,643)	\$ 297,739
Net income		9,246			9,246
Other comprehensive income (loss), net of tax			(701)		(701)
Treasury shares purchased under deferred directors' plan (6,466 shares)	173			(173)	0
Treasury stock sold and distributed under deferred directors' plan (3,018 shares)	(54)			54	0
Stock activity under stock compensation plans, net of taxes (47,234 shares)	(138)				(138)

Stock compensation expense		439						439		
Balance at March 31, 2013	\$	90,459	\$	212,900	\$	4,988	\$	(1,762)	\$	306,585

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

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Three Months Ended March 31, 2013 and 2012  
(in thousands)  
(Unaudited)  
(Page 1 of 2)

	2013	2012
Cash flows from operating activities:		
Net income	\$ 9,246	\$ 8,626
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	679	666
Provision for loan losses	0	799
Loss on sale and write down of other real estate owned	0	3
Amortization of intangible assets	12	13
Amortization of loan servicing rights	168	170
Net change in loan servicing rights valuation allowance	(37)	(62)
Loans originated for sale	(29,409)	(25,041)
Net gain on sales of loans	(1,021)	(573)
Proceeds from sale of loans	32,949	23,821
Net gain on sales and calls of securities available for sale	(1)	(3)
Impairment on available for sale securities	0	510
Net securities amortization	2,720	1,504
Stock compensation expense	439	428
Earnings on life insurance	(383)	(310)
Tax benefit of stock option exercises	(14)	(267)
Net change:		
Accrued income receivable	(744)	135
Accrued expenses payable	2,738	3,659
Other assets	(261)	381
Other liabilities	6,027	(486)
Total adjustments	13,862	5,347
Net cash from operating activities	23,108	13,973
Cash flows from investing activities:		
Proceeds from maturities, calls and principal paydowns of securities available for sale	38,293	22,538
Purchases of securities available for sale	(57,736)	(31,610)
Purchase of life insurance	(79)	(6)
Net (increase) decrease in total loans	(5,567)	6,727
Purchases of land, premises and equipment	(341)	(950)
Proceeds from sales of other real estate	0	81
Net cash from investing activities	(25,430)	(3,220)

(Continued)



LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Three Months Ended March 31, 2013 and 2012  
(in thousands)  
(Unaudited)  
(Page 2 of 2)

	2013	2012
Cash flows from financing activities:		
Net increase (decrease) in total deposits	(130,568)	71,174
Net increase (decrease) in short-term borrowings	(8,368)	(16,825)
Payments on long-term borrowings	(15,001)	(2)
Common dividends paid	0	(2,515)
Proceeds (payments) related to stock compensation plans	(138)	30
Purchase of treasury stock	(173)	(172)
Net cash from financing activities	(154,248)	51,690
Net change in cash and cash equivalents	(156,570)	62,443
Cash and cash equivalents at beginning of the period	232,237	104,584
Cash and cash equivalents at end of the period	\$ 75,667	\$ 167,027
Cash paid during the period for:		
Interest	\$ 5,232	\$ 6,211
Income taxes	0	0
Supplemental non-cash disclosures:		
Loans transferred to other real estate	0	78
Security purchased not settled	5,216	0

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

LAKELAND FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2013

(Table amounts in thousands except for share and per share data)

(Unaudited)

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. All significant inter-company balances and transactions have been eliminated in consolidation. Also included is the Bank’s wholly owned subsidiary, LCB Investments II, Inc. (“LCB Investments”). LCB Investments also owns LCB Funding, Inc. (“LCB Funding”), a real estate investment trust.

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, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The 2012 Lakeland Financial Corporation Annual Report on Form 10-K should be read in conjunction with these statements.

NOTE 2. EARNINGS PER SHARE

Basic earnings per common share is net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options, stock awards and warrants.

	Three Months Ended March 31,	
	2013	2012
Weighted average shares outstanding for basic earnings per common share	16,408,710	16,280,416
Dilutive effect of stock options, awards and warrants	118,461	158,827
Weighted average shares outstanding for diluted earnings per common share	16,527,171	16,439,243

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

Basic earnings per common share	\$	0.56	\$	0.53
Diluted earnings per common share	\$	0.56	\$	0.52

9

---

## NOTE 3. LOANS

	March 31, 2013			December 31, 2012		
Commercial and industrial loans:						
Working capital lines of credit loans	\$ 437,295	19.3	%	\$ 439,638	19.5	%
Non-working capital loans	404,934	17.9		407,184	18.0	
Total commercial and industrial loans	842,229	37.2		846,822	37.5	
Commercial real estate and multi-family residential loans:						
Construction and land development loans	97,263	4.3		82,494	3.7	
Owner occupied loans	365,619	16.2		358,617	15.9	
Nonowner occupied loans	339,030	15.0		314,889	13.9	
Multifamily loans	46,270	2.0		45,011	2.0	
Total commercial real estate and multi-family residential loans	848,182	37.5		801,011	35.5	
Agri-business and agricultural loans:						
Loans secured by farmland	99,537	4.4		109,147	4.8	
Loans for agricultural production	105,312	4.7		115,572	5.1	
Total agri-business and agricultural loans	204,849	9.1		224,719	10.0	
Other commercial loans	48,867	2.2		56,807	2.5	
Total commercial loans	1,944,127	85.9		1,929,359	85.5	
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	116,164	5.1		109,823	4.9	
Open end and junior lien loans	154,773	6.8		161,366	7.1	
Residential construction and land development loans	6,110	0.3		11,541	0.5	
Total consumer 1-4 family mortgage loans	277,047	12.2		282,730	12.5	
Other consumer loans	41,891	1.9		45,755	2.0	
Total consumer loans	318,938	14.1		328,485	14.5	
Subtotal	2,263,065	100.0	%	2,257,844	100.0	%
Less: Allowance for loan losses	(50,818)			(51,445)		
Net deferred loan fees	(605)			(324)		
Loans, net	\$2,211,642			\$2,206,075		

## NOTE 4. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The following table presents the activity in the allowance for loan losses by portfolio segment for the three-month period ended March 31, 2013, and 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, 2013:

	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer
Three Months Ended March 31, 2013						
Balance						
January 1,	\$ 22,342	\$ 20,812	\$ 1,403	\$ 240	\$ 2,682	\$ 60
Provision for loan losses	(359)	253	(142)	(17)	270	(2)
Loans charged-off	(133)	(906)	0	0	(108)	(5)
Recoveries	263	261	2	0	22	3
Net loans charged-off	130	(645)	2	0	(86)	(2)
Balance						
March 31,	\$ 22,113	\$ 20,420	\$ 1,263	\$ 223	\$ 2,866	\$ 55
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 4,757	\$ 6,621	\$ 43	\$ 0	\$ 412	\$ 2
Collectively evaluated for impairment	17,356	13,799	1,220	223	2,454	53
Total ending allowance balance	\$ 22,113	\$ 20,420	\$ 1,263	\$ 223	\$ 2,866	\$ 55
Loans:						
Loans individually evaluated for	\$ 16,650	\$ 27,394	\$ 975	\$ 0	\$ 2,594	\$ 8

impairment						
Loans collectively evaluated for impairment	825,817	819,624	203,970	48,863	274,727	41,700
Total ending loans balance	\$ 842,467	\$ 847,018	\$ 204,945	\$ 48,863	\$ 277,321	\$ 41,800

The recorded investment in loans does not include accrued interest.

The following table presents the activity in the allowance for loan losses by portfolio segment for the three-month period ended March 31, 2012:

	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer
Three Months Ended March 31, 2012						
Balance						
January 1,	\$ 22,830	\$ 23,489	\$ 695	\$ 65	\$ 2,322	\$ 645
Provision for loan losses	(104)	565	(157)	119	171	(54)
Loans charged-off	(778)	(847)	0	0	(14)	(94)
Recoveries	186	29	0	2	48	26
Net loans charged-off	(592)	(818)	0	2	34	(68)
Balance						
March 31,	\$ 22,134	\$ 23,236	\$ 538	\$ 186	\$ 2,527	\$ 523

The recorded investment in loans does not include accrued interest.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2012:

	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 5,542	\$ 8,559	\$ 63	\$ 0	\$ 607	\$ 3
	16,800	12,253	1,340	240	2,075	5

Collectively  
evaluated for  
impairment

Total ending  
allowance  
balance

\$	22,342	\$	20,812	\$	1,403	\$	240	\$	2,682	\$	60
----	--------	----	--------	----	-------	----	-----	----	-------	----	----

Loans:

Loans  
individually  
evaluated for  
impairment

\$	18,281	\$	36,919	\$	797	\$	0	\$	2,853	\$	9
----	--------	----	--------	----	-----	----	---	----	-------	----	---

Loans  
collectively  
evaluated for  
impairment

	828,728		763,279		224,008		56,810		280,141		45,6
--	---------	--	---------	--	---------	--	--------	--	---------	--	------

Total ending  
loans balance

\$	847,009	\$	800,198	\$	224,805	\$	56,810	\$	282,994	\$	45,70
----	---------	----	---------	----	---------	----	--------	----	---------	----	-------

The recorded investment in loans does not include accrued interest.

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

The allowance for loan losses to total loans at March 31, 2013 and 2012 was 2.25% and 2.37%, respectively. The allowance for loan losses to total loans at December 31, 2012 was 2.28%.

The following table presents loans individually evaluated for impairment as of and for the three-month period ended March 31, 2013:

	Three Months Ended March 31, 2013					
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	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	\$ 65	\$ 65	\$ 0	\$ 65	\$ 0	\$ 0
Non-working capital loans	25	25	0	34	0	0
Commercial real estate and multi-family residential loans:						
Owner occupied loans	742	562	0	566	0	0
Agri-business and agricultural loans:						
Loans secured by farmland	828	649	0	521	0	0
Consumer 1-4 family loans:						
Closed end first mortgage loans	57	57	0	58	0	0
Open end and junior lien loans	41	41	0	41	0	0
Other consumer loans	1	1	0	1	0	0

With an allowance recorded:

Commercial and industrial loans:

Working capital lines of credit loans

5,488	2,879	1,252	3,170	13
-------	-------	-------	-------	----

Non-working capital loans

15,536	13,681	3,505	14,412	135
--------	--------	-------	--------	-----

Commercial real estate and multi-family residential loans:

Construction and land development loans

5,728	5,339	996	4,528	45
-------	-------	-----	-------	----

Owner occupied loans

2,330	2,330	695	4,300	29
-------	-------	-----	-------	----

Nonowner occupied loans

19,153	19,163	4,930	24,299	84
--------	--------	-------	--------	----

Agri-business and agricultural loans:

Loans secured by farmland

646	326	43	327	0
-----	-----	----	-----	---

Consumer 1-4 family mortgage loans:

Closed end first mortgage loans

3,443	2,473	397	2,499	0
-------	-------	-----	-------	---

Open end and junior lien loans

52	23	15	40	0
----	----	----	----	---

Other consumer loans

79	79	28	80	0
----	----	----	----	---

Total	\$	54,214	\$	47,693	\$	11,861	\$	55,132	\$	306	\$
-------	----	--------	----	--------	----	--------	----	--------	----	-----	----

The recorded investment in loans does not include accrued interest.



Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

The following table presents loans individually evaluated for impairment as of and for the three-month period ended March 31, 2012:

	Three Months Ended March 31, 2012					
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial and industrial loans:						
Non-working capital loans	\$ 196	\$ 196	\$ 0	\$ 171	\$ 0	\$ 0
Commercial real estate and multi-family residential loans:						
Owner occupied loans	292	292	0	290	0	0
Consumer 1-4 family loans:						
Closed end first mortgage loans	301	301	0	297	0	0
Open end and junior lien loans	40	40	0	40	0	0
With an allowance recorded:						
Commercial and industrial loans:						
Working capital lines of credit loans	5,503	5,502	3,023	5,805	16	16
Non-working capital loans	17,282	17,284	5,455	17,723	180	180
Commercial real estate and multi-family residential loans:						

residential loans:					
Construction and land development loans	2,060	2,059	550	969	0
Owner occupied loans	4,175	4,174	1,169	4,588	12
Nonowner occupied loans	27,598	27,597	6,555	29,401	98
Multifamily loans	0	0	0	0	0
Agri-business and agricultural loans:					
Loans secured by farmland	618	618	120	622	0
Loans for agricultural production	208	208	18	210	0
Other commercial loans	0	0	0	0	0
Consumer 1-4 family mortgage loans:					
Closed end first mortgage loans	2,445	2,447	329	1,797	11
Open end and junior lien loans	270	270	149	354	0
Residential construction loans	0	0	0	0	0
Other consumer loans	7	7	5	7	0
Total	\$ 60,995	\$ 60,995	\$ 17,373	\$ 62,274	\$ 317

The recorded investment in loans does not include accrued interest.

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2012:

	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	\$ 61	\$ 61	\$ 0
Non-working capital loans	0	0	0
Commercial real estate and multi-family residential loans:			
Construction and land development loans			
Owner occupied loans	754	574	0
Nonowner occupied loans	385	385	0
Multifamily loans	410	286	0
Agri-business and agricultural loans:			
Loans secured by farmland	645	466	0
Loans for ag production	0	0	0
Other commercial loans	0	0	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	59	59	0
Open end and junior lien loans	41	41	0
Residential construction loans			
Other consumer loans	1	1	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	5,833	3,224	1,516
Non-working capital loans	16,763	14,996	4,026
Commercial real estate and multi-family residential loans:			
Construction and land development loans			
Owner occupied loans	3,352	2,960	934
Nonowner occupied loans	5,869	5,869	1,476
Multifamily loans	26,835	26,845	6,149
Agri-business and agricultural loans:			
Loans secured by farmland	0	0	0
Loans for agricultural production	651	331	63
Other commercial loans	0	0	0
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	3,387	2,403	415
Open end and junior lien loans	379	350	192
Residential construction loans	0	0	0
Other consumer loans	91	91	34

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

Total	\$	65,516	\$	58,942	\$	14,805
-------	----	--------	----	--------	----	--------

The recorded investment in loans does not include accrued interest.

15

---

Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of March 31, 2013 and December 31, 2012:

	March 31, 2013		December 31, 2012	
	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 1,858	\$ 0	\$ 1,899	\$ 0
Non-working capital loans	3,692	0	4,812	50
Commercial real estate and multi-family residential loans:				
Construction and land development loans	390	0	398	0
Owner occupied loans	2,582	0	2,461	0
Nonowner occupied loans	11,568	0	19,200	0
Multifamily loans	0	0	286	0
Agri-business and agricultural loans:				
Loans secured by farmland	975	0	797	0
Loans for agricultural production	0	0	0	0
Other commercial loans	0	0	0	0
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	533	0	504	0
Open end and junior lien loans	64	0	391	0
Residential construction loans	0	0	0	0
Other consumer loans	65	0	77	0
<b>Total</b>	<b>\$ 21,727</b>	<b>\$ 0</b>	<b>\$ 30,825</b>	<b>\$ 50</b>

The recorded investment in loans does not include accrued interest.



Edgar Filing: LAKELAND FINANCIAL CORP - Form 10-Q

The following table presents the aging of the recorded investment in past due loans as of March 31, 2013 by class of loans:

	30-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial and industrial loans:					
Working capital lines of credit loans	\$ 0	\$ 1,858	\$ 1,858	\$ 435,657	\$ 437,515
Non-working capital loans	7	3,692	3,699	401,253	404,952
Commercial real estate and multi-family residential loans:					
Construction and land development loans	0	390	390	96,498	96,888
Owner occupied loans	152	2,582	2,734	362,661	365,395
Nonowner occupied loans	507	11,568	12,075	326,466	338,541
Multifamily loans	0	0	0	46,194	46,194
Agri-business and agricultural loans:					
Loans secured by farmland	0	975	975	98,574	99,549
Loans for agricultural production	0	0	0	105,396	105,396
Other commercial loans	0	0	0	48,863	48,863
Consumer 1-4 family mortgage loans:					
Closed end first mortgage loans	1,273	533	1,806	114,087	115,893
Open end and junior lien loans	206	64	270	155,058	155,328
Residential construction loans	54	0	54	6,046	6,100
Other consumer loans	658	65	723	41,123	41,846
<b>Total</b>	<b>\$ 2,857</b>	<b>\$ 21,727</b>	<b>\$ 24,584</b>	<b>\$ 2,237,876</b>	<b>\$ 2,262,460</b>

The recorded investment in loans does not include accrued interest.



The following table presents the aging of the recorded investment in past due loans as of December 31, 2012 by class of loans:

	30-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial and industrial loans:					
Working capital lines of credit loans	\$ 233	\$ 1,899	\$ 2,132	\$ 437,705	\$ 439,837
Non-working capital loans	48	4,862	4,910	402,262	407,172
Commercial real estate and multi-family residential loans:					
Construction and land development loans	998	398	1,396	80,954	82,350
Owner occupied loans	1,023	2,461	3,484	354,921	358,405
Nonowner occupied loans	38	19,200	19,238	295,243	314,481
Multifamily loans	0	286	286	44,676	44,962
Agri-business and agricultural loans:					
Loans secured by farmland	0	797	797	108,359	109,156
Loans for agricultural production	0	0	0	115,649	115,649
Other commercial loans	0	0	0	56,810	56,810
Consumer 1-4 family mortgage loans:					
Closed end first mortgage loans	1,475	504	1,979	107,583	109,562
Open end and junior lien loans	361	391	752	161,172	161,924
Residential construction loans	0	0	0	11,508	11,508
Other consumer loans	81	77	158	45,546	45,704
<b>Total</b>	<b>\$ 4,257</b>	<b>\$ 30,875</b>	<b>\$ 35,132</b>	<b>\$ 2,222,388</b>	<b>\$ 2,257,520</b>

The recorded investment in loans does not include accrued interest.



## Troubled Debt Restructurings:

Troubled debt restructured loans are included in the totals for impaired loans. The Company has allocated \$10.9 million and \$12.5 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2013 and December 31, 2012. The Company is not committed to lending additional funds to debtors whose loans have been modified in a troubled debt restructuring.

	March 31 2013	December 31, 2012
Accruing troubled debt restructured loans	\$ 23,605	\$ 22,332
Nonaccrual troubled debt restructured loans	19,607	28,506
Total troubled debt restructured loans	\$ 43,212	\$ 50,838

During the quarter ending March 31, 2013, loans totaling \$1.8 million were modified as troubled debt restructurings. The modified terms of the loans included reductions in the interest rates to one that would not be readily available in the marketplace for borrowers with a similar risk profile and modifications of the repayment terms. These restructured loans were provided to related borrowers who are engaged in land development.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three month period ending March 31, 2013:

Modifications  
Three Months Ended March 31, 2013

	All Modifications		Interest Rate Reductions		Modifi	Repayment
	Pre-Modification Outstanding	Post-Modification Outstanding	Interest at Pre-Modification Rate	Interest at Post-Modification Rate	Number of Loans	Ex Pe R
Troubled Debt Restructurings	Number of Loans	Number of Loans	Number of Loans	Number of Loans	Number of Loans	Pe R
Commercial real estate and multi-family residential loans:						
Construction and land development loans	6	2,198	6	85	63	0

Total	6 \$	2,198 \$	2,198	6 \$	85 \$	63	0
-------	------	----------	-------	------	-------	----	---

19

---

For the three month period ending March 31, 2013 the commercial real estate and multi-family residential loan troubled debt restructuring described above decreased the allowance for loan losses by \$287,000.

The troubled debt restructurings described above had a charge-off of \$365,000 during the period ending March 31, 2013.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three month period ending March 31, 2012:

	Modifications Three Months Ended March 31, 2012		
	All Modifications		
	Number of Loans	Pre-Modification Outstanding  Recorded Investment	Post-Modification Outstanding  Recorded Investment
Troubled Debt Restructurings			
Commercial real estate and multi-family residential loans:			
Construction and land development loans	5	1,638	1,638
Total	5	\$ 1,638	\$ 1,638

For the three month period ending March 31, 2012 the commercial real estate and multi-family residential loan troubled debt restructuring described above decreased the allowance for loan losses by \$500,000.

The commercial real estate and multi-family residential loan troubled debt restructurings described above did not result in any charge offs during the three months ending March 31, 2012.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification which occurred during the three month period ending March 31, 2013:

	Modifications	
	Three Months ended March 31, 2013	
	Number of Loans	Recorded Investment
Troubled Debt Restructurings that Subsequently Defaulted		
Consumer 1-4 family loans:		
Closed end first mortgage loans	1	\$ 1,249
Total	1	\$ 1,249

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

The troubled debt restructurings described above that subsequently defaulted increased the allowance for loan losses by \$15,000 and did not result in any charge offs during the three periods ending March 31, 2013.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification which occurred during the three month period ending March 31, 2012:

	Modifications	
	Three Months ended March 31, 2012	
	Number of Loans	Recorded Investment
Troubled Debt Restructurings that Subsequently Defaulted		
Consumer 1-4 family loans:		
Closed end first mortgage loans	1	\$ 65
Total	1	\$ 65

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above increased the allowance for loan losses by \$1,000 and did not result in any charge offs during the three periods ending March 31, 2012.

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 \$250,000.

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. Loans listed as Not Rated are consumer loans included in groups of homogenous loans which are analyzed for credit quality indicators utilizing delinquency status. As of March 31, 2013 and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard (in thousands)	Doubtful	Not Rated
Commercial and industrial loans:					
Working capital lines of credit loans	\$ 400,217	\$ 23,496	\$ 13,802	\$ 0	\$ 0
Non-working capital loans	356,623	23,004	25,260	65	0
Commercial real estate and multi-family residential loans:					
Construction and land development loans	80,756	5,370	10,762	0	0
Owner occupied loans	322,868	23,209	17,836	0	1,482
Nonowner occupied loans	304,529	14,747	19,265	0	0
Multifamily loans	45,854	340	0	0	0
Agri-business and agricultural loans:					
Loans secured by farmland	97,958				