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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the fiscal year ended December 31, 1996
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from _____________ to ____________________

Commission File No. 0-11487

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

INDIANA	35-1559596
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
202 East Center Street, P.O. Box 1387, Warsaw, Indiana	46581-1387
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 1-219-267-6144

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

COMMON
(Title of Class)

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 other period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of regulation S-K is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive Proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.[ ]

Aggregate market value of the voting stock held by non-affiliates of the registrant, computed solely for the purposes of this requirement on the basis of the book value at February 28, 1997, and assuming solely for the purposes of this calculation that all Directors and executive officers of the Registrant are "affiliates": $40,422,606.

Number of shares of common stock outstanding at February 28, 1997: 2,903,799

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in the Part of 10-K indicated:

Part	Document
I, II & IV	Lakeland Financial Corporation's Annual Report to Shareholders for year ended December 31, 1996, parts of which are incorporated into Parts I, II and IV of this Form 10-K.
III	Proxy statement mailed to Shareholders on March 13, 1997, which is incorporated into Part III of this Form 10-K.

PART I.

ITEM 1. BUSINESS

The registrant was incorporated under the laws of the State of Indiana on February 8, 1983. As used herein, the term "Registrant" refers to Lakeland Financial Corporation or, if the context dictates, the Lakeland Financial Corporation and its wholly owned subsidiary, Lake City Bank, Warsaw, Indiana.

GENERAL

Registrant's Business. The Registrant is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended. Registrant owns all of the outstanding stock of Lake City Bank, Warsaw, Indiana, a full service commercial bank organized under Indiana law (the "Bank"). Registrant conducts no business except that incident to its ownership of the outstanding stock of the Bank and the operation of the Bank.

The Bank's deposits are insured by the Federal Deposit Insurance Corporation. The Bank's activities cover all phases of commercial banking, including checking accounts, savings accounts, time deposits, the sale of securities under agreements to repurchase, discount brokerage services, commercial and agricultural lending, direct and indirect consumer lending, real estate mortgage lending, safe deposit box service and trust services.

The Bank's main banking office is located at 202 East Center Street, Warsaw, Indiana. As of December 31, 1996, the Bank had nine branch offices and one drive-up facility in Kosciusko County, eight branch offices in Elkhart County, three branch offices in Noble County, three branch offices in Wabash County, two branch offices in LaGrange County, two branch offices in Marshall County, one branch office in Whitley County and two branch offices and one drive-up facility in Fulton County. The Bank's operations center is located at 113 East Market Street, Warsaw, Indiana.

Supervision and Regulation. The Registrant is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended ("BHC Act"). As a bank holding company, the registrant is required to file with the Federal Reserve Board (the "FRB") annual reports and such additional information as the FRB may require. The FRB may also make an examination or inspection of the Registrant.

The BHC Act prohibits a bank holding company from engaging in, or acquiring direct or indirect control of more than five percent of the voting shares of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities deemed by the FRB to be "closely related to banking". Under current regulations, bank holding companies and their subsidiaries may engage in such bank related business ventures as consumer finance, equipment leasing, computer service bureau and software operations and mortgage banking.

The BHC Act also governs banking expansion by bank holding companies. Before a bank holding company acquires more than five percent of the voting shares of any other bank it must receive the prior written approval of the FRB or its delegate. Furthermore, the BHC Act does not permit a bank holding company to acquire a bank located outside the State of Indiana unless the acquisition is specifically authorized by the laws of the State in which such bank is located.

The acquisition of banking subsidiaries by bank holding companies is subject to the jurisdiction of, and requires the prior approval of, the Federal Reserve, and for institutions resident in Indiana, the Indiana Department of Financial Institutions. Bank holding companies located in Indiana are permitted to acquire banking subsidiaries throughout the state, subject to limitations based upon the percentage of total state deposits of the holding company's subsidiary banks. Indiana law permits the Registrant to acquire banks, and be acquired by bank holding companies, located in any state in the country which permits reciprocal entry by Indiana bank holding companies.

The Registrant is an "affiliate" of the Bank within the meaning of Section 23A of the Federal Reserve Act (as made applicable to the Bank by the Federal Deposit Insurance Act) and Indiana Code 28-1-18.1. As a result, the Bank is restricted in making loans to, investments in, or loans secured by securities of, the Registrant. The BHC Act also prohibits the Registrant and its subsidiaries from imposing "tie-in" requirements in connection with extensions of credit and other services.

Under the provisions of Indiana law, the registrant may not acquire more than twenty-five percent of the voting stock in any banks other than the Bank without the approval of the Indiana Department of Financial Institutions. In any such event, the Registrant would be required to obtain the prior approval of the FRB as described above to purchase interest of five percent or more in another bank.

The Bank is under supervision of and subject to examination by the Indiana Department of Financial Institutions and the Federal Deposit Insurance Corporation. Regulation and examination by banking regulatory agencies are primarily for the benefit of depositors and not shareholders.

The earnings of commercial banks are affected not only by general economic conditions, but also by the policies of various governmental regulatory authorities. In particular, the FRB regulates money and credit conditions and interest rates in order to influence general economic conditions, primarily through open-market operations in U.S. Government securities, the discount rate on bank borrowing, setting the reserves that banks must maintain against certain bank deposits and the regulation of interest rates payable by banks on certain time and savings deposits. These policies have a significant effect on the overall growth and distribution of bank loans, investments and deposits. They influence interest rates charged on loans, earned on investments and paid for time and savings deposits. FRB monetary policies have had significant effect on the operating results of commercial banks in the past, and are expected to exert similar influence in the future. The general effect, if any, of such policies upon the future business and earnings of the Registrant and the Bank cannot be reasonably predicted.

MATERIAL CHANGES AND BUSINESS DEVELOPMENTS

From the date of the Registrant's incorporation, February 8, 1983, until October 31, 1983, the Registrant conducted no business and had no assets (except nominal assets necessary to complete the acquisition of the Bank). The Registrant has conducted no business since October 31, 1983, except that incident to its ownership of the stock of the Bank, the collection of dividends from the Bank, and the disbursement of dividends to the Registrant's shareholders. During the period from 1985 to 1987, the Registrant owned all of the outstanding shares of Lakeland Mortgage Corp., a mortgage lending and servicing corporation doing business in Indiana. Lakeland Mortgage Corp. discontinued business operations on December 15, 1987. The Registrant continued to own all of the stock of Lakeland Mortgage Corp. until 1992, during which year, Lakeland Mortgage Corp. was liquidated and all stock was redeemed.

COMPETITION

The Bank was originally organized in 1872 and has continuously operated under the laws of the State of Indiana since its organization. The Bank is a full service bank providing both commercial and personal banking services. Bank products offered include interest and noninterest bearing demand accounts, savings and time deposit accounts, sale of securities under agreements to repurchase, discount brokerage, commercial loans, mortgage loans, consumer loans, letters of credit, and a wide range of trust services. The interest rates for both deposits and loans, as well as the range of services provided, are nearly the same for all banks competing within the Bank's service area.

The Bank's service area is described as all of Kosciusko, Elkhart, LaGrange, Noble and Wabash Counties and portions of Marshall, Fulton, Miami, Huntington and Whitley Counties. In addition to the banks located within its service area, the Bank also competes with savings and loan associations, credit unions, farm credit services, finance companies, personal loan companies, insurance companies, money market funds, and other non-depository financial intermediaries. Also, financial intermediaries such as money market mutual funds and large retailers are not subject to the same regulations and laws that govern the operation of traditional depository institutions and accordingly may have an advantage in competing for funds.

The Bank competes with other major banks for the large commercial deposit and loan accounts. The Bank is presently subject to an aggregate maximum loan limit to any single account in the amount of $7,012,000 pursuant to Indiana law. This maximum prohibits the Bank from providing a full range of banking services to those businesses or personal accounts whose borrowing periodically exceed this amount. In order to retain at least a portion of the bank business of these large borrowers, the Bank maintains correspondent relationships with other financial institutions. The Bank also participates with local and other banks in the placement of large borrowings in excess of its lending limit. The Bank is also a member of the Federal Home Loan Bank of Indianapolis in order to broaden its mortgage lending and investment activities and to provide additional funds, if necessary, to support these activities.

FOREIGN OPERATIONS

The Bank has no investments with any foreign entity other than a nominal demand deposit account which is maintained with a Canadian bank in order to facilitate the clearing of checks drawn on banks located in that country. There are no foreign loans.

EMPLOYEES

At December 31, 1996, the Registrant, including its subsidiary corporation, had approximately 320 full time equivalent employees. Benefit programs include a pension plan, 401(k) plan, group medical insurance, group life insurance and paid vacations. The bank is not a party to any collective bargaining agreement, and employee relations are considered good.

INDUSTRY SEGMENTS

The Registrant and the Bank are engaged in a single industry and perform a single service -- commercial banking. On the pages that follow are tables which set forth selected statistical information relative to the business of the Registrant.

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DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL
(in thousands of dollars)

	1996			1995		
	Average Balance	Interest Income	Yield*	Average Balance	Interest Income	Yield*
ASSETS						
Earning assets:						
Trading account investments	$ 0	$ 0	0.00%	$ 0	$ 0	0.00%
Loans:						
Taxable **	349,336	32,724	9.37	305,806	29,859	9.76
Tax Exempt *	3,475	373	10.73	3,435	389	11.32
Investments:						
Taxable	181,411	11,348	6.26	170,788	10,723	6.28
Tax Exempt *	22,626	2,088	9.23	16,724	1,572	9.40
Short-term investment	4,250	226	5.32	3,293	192	5.83
Interest bearing deposits	213	19	8.92	108	10	9.26
Total Earning Assets	$ 561,311	$ 46,778	8.33%	$ 500,154	$ 42,745	8.55%
Nonearning assets:						
Cash and due from banks	24,533	0		20,725	0	
Premises and equipment	14,724	0		12,386	0	
Other assets	9,424	0		7,668	0	
Less: allowance for loan losses	(5,382)	0		(5,238)	0	
Total assets	$ 604,610	$ 46,778		$ 535,695	$ 42,745	

* Tax exempt income converted to fully taxable equivalent basis at a 34 percent tax rate for 1996 and 1995. Tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983, includes TEFRA adjustment applicable to nondeductible interest expenses. Nonaccrual loans are included in the above analysis as earning assets - loans.

**Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 1996, and 1995, are included as taxable loan interest income.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL (cont.)
(in thousands of dollars)

	1995			1994		
	Average Balance	Interest Income	Yield*	Average Balance	Interest Income	Yield*
ASSETS						
Earning assets:						
Trading account investments	$ 0	$ 0	0.00%	$ 0	$ 0	0.00%
Loans:						
Taxable **	305,806	29,859	9.76	267,604	23,658	8.84
Tax Exempt *	3,435	389	11.32	3,787	413	10.91
Investments:						
Taxable	170,788	10,723	6.28	149,049	8,842	5.93
Tax Exempt *	16,724	1,572	9.40	11,436	1,102	9.64
Short-term investment	3,293	192	5.83	3,551	152	4.28
Interest bearing deposits	108	10	9.26	98	3	3.06
Total earning assets	$ 500,154	$ 42,745	8.55%	$ 435,525	$ 34,170	7.85%
Nonearning assets:						
Cash and due from banks	20,725	0		18,164	0	
Premises and equipment	12,386	0		10,104	0	
Other assets	7,668	0		7,508	0	
Less: allowance for loan losses	(5,238)	0		(4,417)	0	
Total assets	$ 535,695	$ 42,745		$ 466,884	$ 34,170	

* Tax exempt income converted to fully taxable equivalent basis at a 34 percent tax rate for 1995 and 1994. Tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983, includes TEFRA adjustment applicable to nondeductible interest expenses. Nonaccrual loans are included in the above analysis as earning assets - loans.

**Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 1995, and 1994, are included as taxable loan interest income.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL (cont.)
(in thousands of dollars)

	1996			1995		
	Average Balance	Interest Expense	Rate	Average Balance	Interest Expense	Rate
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities						
Savings deposits	$ 43,847	$ 1,118	2.55%	$ 46,123	$ 1,069	2.32%
Interest bearing checking accounts	53,625	1,178	2.20	55,355	1,333	2.41
Time deposits						
In denominations under $100,000	208,499	11,229	5.39	177,992	10,035	5.64
In denominations over $100,000	86,137	4,886	5.67	73,449	4,410	6.00
Miscellaneous short-term borrowings	78,823	4,213	5.34	66,610	3,803	5.71
Long-term borrowings	19,624	1,113	5.67	17,432	992	5.69
Total interest bearing liabilities	$ 490,555	$ 23,737	4.84%	$ 436,961	$ 21,642	4.95%
Non-interest bearing liabilities and stockholders' equity						
Demand deposits	69,459	0		60,753	0	
Other liabilities	5,553	0		4,897	0	
Stockholders' equity	39,043	0		33,084	0	
Total liabilities and stock-holders' equity	$ 604,610	$ 23,737	3.93%	$ 535,695	$ 21,642	4.04%
Net interest differential - yield on average daily earning assets		$ 23,041	4.10%		$ 21,103	4.22%

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL (cont.)
(in thousands of dollars)

	1995			1994		
	Average Balance	Interest Expense	Rate	Average Balance	Interest Expense	Rate
LIABILITIES AND STOCK-HOLDERS' EQUITY						
Interest bearing liabilities						
Savings deposits	$ 46,123	$ 1,069	2.32%	$ 55,855	$ 1,517	2.72%
Interest bearing checking accounts	55,355	1,333	2.41	58,945	1,394	2.36
Time deposits						
In denominations under $100,000	177,992	10,035	5.64	148,251	6,837	4.61
In denominations over $100,000	73,449	4,410	6.00	54,389	2,360	4.34
Miscellaneous short-term borrowings	66,610	3,803	5.71	47,220	1,879	3.98
Long-term borrowings	17,432	992	5.69	15,806	900	5.69
Total interest bearing liabilities	$ 436,961	$ 21,642	4.95%	$ 380,466	$ 14,887	3.91%
Non-interest bearing liabilities and stockholders' equity						
Demand deposits	60,753	0		52,893	0	
Other liabilities	4,897	0		4,606	0	
Stockholders' equity	33,084	0		28,919	0	
Total liabilities and stock-holders' equity	$ 535,695	$ 21,642	4.04%	$ 466,884	$ 14,887	3.19%
Net interest differential - yield on average daily earning assets		$ 21,103	4.22%		$ 19,283	4.43%

ANALYSIS OF CHANGES IN INTEREST DIFFERENTIALS
(Fully Taxable Equivalent Basis)
(in thousands of dollars)

YEAR ENDED DECEMBER 31,

	1996 Over (under) 1995(1)			1995 Over (under) 1994(1)		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST AND LOAN FEE INCOME(2)						
Loans:						
Taxable	$ 4,009	$ (1,144)	$ 2,865	$ 3,581	$ 2,620	$ 6,201
Tax exempt	5	(21)	(16)	(39)	15	(24)
Investments:						
Taxable	665	(40)	625	1,344	537	1,881
Tax exempt	544	(28)	516	496	(26)	470
Short-term investment	49	(15)	34	(12)	52	40
Interest bearing deposits	9	0	9	0	7	7
Total interest income	5,281	(1,248)	4,033	5,370	3,205	8,575
INTEREST EXPENSE						
Savings deposits	(48)	97	49	(243)	(205)	(448)
Interest bearing checking accounts	(41)	(114)	(155)	(86)	25	(61)
Time deposits						
In denominations under $100,000	1,616	(422)	1,194	1,517	1,681	3,198
In denominations over $100,000	700	(224)	476	979	1,071	2,050
Miscellaneous short-term borrowings	629	(219)	410	935	989	1,924
Long-term borrowings	124	(3)	121	93	(1)	92
Total interest expense	2,980	(885)	2,095	3,195	3,560	6,755
INCREASE (DECREASE) IN INTEREST DIFFERENTIALS	$ 2,301	$ (363)	$ 1,938	$ 2,175	$ (355)	$ 1,820

(1) The earning assets and interest bearing liabilities used to calculate interest differentials are based on average daily balances for 1996, 1995 and 1994. The changes in volume represent "changes in volume times the old rate". The changes in rate represent "changes in rate times old volume". The change in rate/volume were also calculated by "change in rate times change in volume" and allocated consistently based upon the relative absolute values of the changes in volume and changes in rate.
(2) Tax exempt income converted to fully taxable equivalent basis at a 34 percent tax rate for 1996, 1995 and 1994. Tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983, includes TEFRA adjustment applicable to nondeductible interest expense.

ANALYSIS OF SECURITIES
(in thousands of dollars)

The amortized cost and the fair value of securities as of December 31, 1996, 1995 and 1994 are as follows:

	1996		1995		1994	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale:						
U.S. Treasury securities	$ 31,604	$ 31,804	$ 27,549	$ 27,844	$ 26,960	$ 25,916
U.S. Government agencies and corporations	500	507	2,150	2,191	1,000	1,000
Mortgage-backed securities	46,002	46,332	48,302	48,843	30,734	28,987
Obligations of state and political subdivisions	2,081	2,167	2,076	2,176	887	933
Other debt securities	1,000	1,032	999	1,066	999	1,026
Total debt securities available-for-sale	81,187	81,842	81,076	82,120	60,580	57,862
Securities held-to-maturity:						
U.S. Treasury securities	$ 17,020	$ 17,077	$ 13,611	$ 13,576	$ 14,714	$ 13,876
U.S. Government agencies and corporations	2,262	2,362	2,898	3,033	2,034	2,037
Mortgage-backed securities	83,811	83,719	77,319	77,471	78,781	73,673
Obligations of state and political subdivisions	21,172	22,095	19,047	20,077	13,608	13,061
Other debt securities	1,009	1,120	1,013	1,171	1,015	1,076
Total debt securities held-to-maturity	125,274	126,373	113,888	115,328	110,152	103,723
Equity securities	0	0	0	0	0	0
Total securities held to maturity	$ 125,274	$ 126,373	$ 113,888	$ 115,328	$ 110,152	$ 103,723

ANALYSIS OF SECURITIES (cont.)
(Fully Tax Equivalent Basis)
(in thousands of dollars)

The maturity distribution (2) and weighted average yields (1) for debt securities portfolio at December 31, 1996, are as follows:

	Within One Year	After One Year Within Five Years	After Five Years Within Ten Years	Over Ten Years
Securities available-for-sale:				
U.S. Treasury securities				
Book value	10,829	20,775	0	0
Yield	5.90	6.06		
U.S. Government agencies and corporations				
Book value	200	300	0	0
Yield	7.47	7.78		
Mortgage-backed securities				
Book value	0	10,568	25,065	10,369
Yield		6.74	6.72	6.90
Obligations of state and political subdivisions				
Book value	298	296	0	1,487
Yield	11.36	11.74		8.57
Other debt securities				
Book value	1,000	0	0	0
Yield	9.39			
Total debt securities available-for-sale:				
Book value	12,327	31,939	25,065	11,856
Yield	6.34	6.39	6.72	7.11
Securities held-to-maturity:				
U.S. Treasury securities				
Book value	6,017	11,003	0	0
Yield	5.48	5.86		
U.S. Government agencies and corporations				
Book value	100	2,162	0	0
Yield	5.75	7.98		
Mortgage-backed securities				
Book value	402	19,984	36,955	26,470
Yield	5.63	7.02	6.20	6.03
Obligations of state and political subdivisions				
Book value	48	1,574	976	18,574
Yield	6.56	10.35	8.48	9.03
Other debt securities				
Book value	0	1,009	0	0
Yield		9.73		
Total debt securities held-to-maturity:				
Book value	6,567	35,732	37,931	45,044
Yield	5.51	6.90	6.24	7.30

(1) Tax exempt income converted to a fully taxable equivalent basis at a 34% rate.
(2) The maturity distribution of mortgage-backed securities is based upon anticipated payments as computed by using the historic average repayment speed from date of issue.
(3) There are no investments in securities of any one issuer that exceed 10% of stockholders' equity.

ANALYSIS OF LOAN PORTFOLIO
Analysis of Loans Outstanding
(in thousands of dollars)

The Registrant segregates its loan portfolio into four basic segments: commercial (including agri-business and agricultural loans), real estate mortgages, installment and credit cards (including personal line of credit loans). The loan portfolio as of December 31, 1996, 1995, 1994, 1993, and 1992 is as follows:

	1996	1995	1994	1993	1992
Commercial loans:					
Taxable	$ 226,190	$ 192,359	$ 173,325	$ 144,274	$ 128,268
Tax exempt	3,414	3,636	3,207	4,501	5,594
Total commercial loans	229,604	195,995	176,532	148,775	133,862
Real estate mortgage loans	60,949	55,948	47,296	49,816	50,413
Installment loans	71,398	58,175	48,228	46,914	36,111
Credit card and line of credit loans	20,314	17,499	15,900	14,680	13,816
Total loans	382,265	327,617	287,956	260,185	234,202
Less allowance for loan losses	5,306	5,472	4,866	4,010	3,095
Net loans	$ 376,959	$ 322,145	$ 283,090	$ 256,175	$ 231,107

The real estate mortgage loan portfolio includes construction loans totaling $1,647, $1,224, $426, $223, and $1,164 as of December 31, 1996, 1995, 1994, 1993 and 1992, respectively. The above loan classifications are based on the nature of the loans as of the loan origination date, and are independent as to the use of the funds by the borrower. There are no foreign loans included in the above analysis.

ANALYSIS OF LOAN PORTFOLIO (cont.)
Analysis of Loans Outstanding (cont.)
(in thousands of dollars)

Repricing opportunities of the loan portfolio occur either according to predetermined adjustable rate schedules included in the related loan agreements or upon scheduled maturity of each principal payment. The following table indicated the rate sensitivity of the loan portfolio as of December 31, 1996. The table includes the real estate loans held-for-sale and assumes these loans will not be sold during the various time horizons.

	Commercial	Real Estate	Installment	Credit Card and Line of Credit	Total	Percent
Immediately adjustable interest rates or original maturity of one day	$ 169,986	$ 2,091	$ 7,298	$ 17,317	$ 196,692	51.3%
Other within one year	17,267	24,834	23,731	0	65,832	17.2
After one year, within five years	38,357	21,737	39,584	2,997	102,675	26.8
Over five years	3,676	13,116	785	0	17,577	4.6
Nonaccrual loans	318	66	0	0	384	0.1
Total loans	$ 229,604	$ 61,844	$ 71,398	$ 20,314	$ 383,160	100.0%

A portion of the Bank's loans are short-term maturities. At maturity, credits are reviewed, and if renewed, are renewed at rates and conditions that prevail at the time of maturity.

Loans due after one year which have a predetermined interest rate and loans due after one year which have floating or adjustable interest rates as of December 31, 1996 amounted to $96,032 and $122,760 respectively.

ANALYSIS OF LOAN PORTFOLIO (cont.)
Review of Nonperforming Loans
(in thousands of dollars)

The following is a summary of nonperforming loans as of December 31, 1996, 1995, 1994, 1993 and 1992.

	1996	1995	1994	1993	1992
PART A - PAST DUE ACCRUING LOANS (90 DAYS OR MORE)					
Real estate mortgage loans	$ 126	$ 122	$ 0	$ 1	$ 79
Commercial and industrial loans	22	69	16	315	100
Loans to individuals for household, family and other personal expenditures	68	18	19	346	42
Loans to finance agriculture production and other loans to farmers	0	0	0	0	0
Total past due loans	216	209	35	662	221
PART B - NONACCRUAL LOANS					
Real estate mortgage loans	155	76	18	0	0
Commercial and industrial loans	229	456	0	0	0
Loans to individuals for household, family and other personal expenditures	0	0	0	0	0
Loans to finance agriculture production and other loans to farmers	0	0	0	0	0
Total nonaccrual loans	384	532	18	0	0
PART C - TROUBLED DEBT RESTRUCTURED LOANS	1,284	1,432	1,484	0	86
Total nonperforming loans	$ 1,884	$ 2,173	$ 1,537	$ 662	$ 307

Nonearning assets of the Corporation include nonaccrual loans (as indicated above), nonaccrual investments, other real estate, and repossessions which amounted to $1,097 at December 31, 1996.

ANALYSIS OF LOAN PORTFOLIO (cont.)
Comments Regarding Nonperforming Assets

PART A - CONSUMER LOANS

Consumer installment loans, except those loans that are secured by real estate, are not placed on a nonaccrual status since these loans are charged-off when they have been delinquent from 90 to 180 days, and when the related collateral, if any, is not sufficient to offset the indebtedness. Advances under Mastercard and Visa programs, as well as advances under all other consumer lines of credit programs, are charged-off when collection appears doubtful.

PART B - NONPERFORMING LOANS

When a loan is classified as a nonaccrual loan, interest on the loan is no longer accrued and all accrued interest receivable is charged off. It is the policy of the Bank that all unsecured loans (i.e. loans for which the collateral is insufficient to cover all principal and accrued interest) will be reclassified as nonperforming loans to the extent they are unsecured, on or before the loan becomes 90 days delinquent. Thereafter, interest is recognized and included in income only when received.

As of December 31, 1996, loans totaling $384,000 were on nonaccrual status.

PART C - TROUBLED DEBT RESTRUCTURED LOANS

Loans renegotiated as troubled debt restructuring are those loans for which either the contractual interest rate has been reduced and/or other concessions are granted to the borrower because of a deterioration in the financial condition of the borrower which results in the inability of the borrower to meet the terms of the loan.

Loans renegotiated as troubled debt restructuring totaled $1,284,000 as of December 31, 1996. Interest income of $85,000 was recognized in 1996. Had these loans been performing under the original contract terms, an additional $44,000 would have been reflected in interest income during 1996. The Bank is not committed to lend additional funds to debtors whose loans have been modified.

PART D - OTHER NONPERFORMING ASSETS

The Bank adopted SFAS No. 114 and SFAS No. 118, 'Accounting by Creditors for Impairment of a Loan' at January 1, 1995. Under these standards, loans considered to be impaired are reduced to the present value of future cash flows or to the fair value of collateral, by allocating a portion of the allowance for loan losses to such loans. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as bad debt expense. As part of the loan review process, management reviews all loans classified as 'special mention' or below, as well as other loans that might warrant application of SFAS No. 114 and SFAS No. 118. The effect of adopting these accounting standards on January 1, 1995 was immaterial and at December 31, 1996, no loans were considered as impaired.

The management of the Bank is of the opinion that there are no significant foreseeable losses relating to substandard or nonperforming assets, except as discussed above.

PART E - LOAN CONCENTRATIONS

There were no loan concentrations within industries which exceeded ten percent of total assets. It is estimated that over 98% of all the Bank's commercial, industrial, agri-business and agricultural real estate mortgage, real estate construction mortgage and consumer loans are made within its basic trade area.

Basis For Determining Allowance For Loan Losses

Management is charged with the responsibility of determining the adequacy of the allowance for loan losses. This responsibility is fulfilled by management in the following ways:

1. Management reviews the larger individual loans (primarily in the commercial loan portfolio) for unfavorable collectibility factors and assesses the requirement for specific reserves on such credits. For those loans not subject to specific reviews, management reviews previous loan loss experience to establish historical ratios and trends in charge-offs by loan category. The ratios of net charge-offs to particular types of loans enable management to estimate charge-offs in future periods by loan category and thereby establish appropriate reserves for loans not specifically reviewed.

2. Management reviews the current and anticipated economic conditions of its lending market to determine the effects on future loan charge-offs by loan category, in addition to the effects on the loan portfolio as a whole.

3. Management reviews delinquent loan reports to determine risk of future loan charge-offs. High delinquencies are generally indicative of an increase in future loan charge-offs.

Based upon the above described policy and objectives, $120,000, $120,000 and $795,000 were charged to the provision for loan losses and added to the allowance for loan losses in 1996, 1995 and 1994, respectively.

The allocation of the allowance for loan losses to the various lending areas is performed by management in relation to perceived exposure to loss in the various loan portfolios. However, the allowance for loan losses is available in its entirety to absorb losses in any particular loan category.

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ANALYSIS OF LOAN PORTFOLIO (cont.)
Summary of Loan Loss
(in thousands of dollars)

Following is a summary of the loan loss experience for the years ended December 31, 1996, 1995, 1994, 1993, and 1992.

	1996	1995	1993	1992	1991
Amount of loans outstanding, December 31,	$ 382,265	$ 327,617	$ 287,956	$ 260,185	$ 234,202
Average daily loans outstanding during the year ended December 31,	$ 352,811	$ 309,241	$ 271,391	$ 240,466	$ 213,599
Allowance for loan losses, January 1,	$ 5,472	$ 4,866	$ 4,010	$ 3,095	$ 2,612
Loans charged-off					
Commercial	171	137	27	99	446
Real Estate	0	48	0	4	258
Installment	158	112	93	97	217
Credit cards and personal credit lines	39	58	15	28	39
Total loans charged-off	368	355	135	228	960
Recoveries of loans previously charged-off					
Commercial	12	26	107	40	11
Real Estate	0	0	1	1	0
Installment	54	63	81	56	85
Credit cards and personal credit lines	16	6	7	6	7
Total recoveries	82	95	196	103	103
Net loans charged-off	286	260	(61)	125	857
Purchase loan adjustment	0	746	0	250	0
Provision for loan loss charged to expense	120	120	795	790	1,340
Balance December 31,	$ 5,306	$ 5,472	$ 4,866	$ 4,010	$ 3,095
Ratio of net charge-offs during the period to average daily loans outstanding					
Commercial	0.03%	0.03%	(0.03)%	0.02%	0.20%
Real Estate	0.01	0.01	0.00	0.00	0.12
Installment	0.00	0.02	0.01	0.02	0.06
Credit cards and personal credit lines	0.04	0.02	0.00	0.01	0.02
Total	0.08%	0.08%	(0.02)%	0.05%	0.40%

ANALYSIS OF LOAN PORTFOLIO (cont.)
Allocation of Allowance for Loan Losses
(in thousands of dollars)

The following is a summary of the allocation for loan losses as of December 31, 1996, 1995, 1994, 1993 and 1992.

	1996		1995		1994	
	Allowance For Loan Losses	Loans as Percentage of Gross Loans	Allowance For Loan Losses	Loans as Percentage of Gross Loans	Allowance For Loan Losses	Loans as Percentage of Gross Loans
Allocated allowance for loan losses						
Commercial	$ 1,213	60.07	$ 811	59.82	$ 665	61.31
Real Estate	123	15.94	112	17.08	95	16.42
Installment	530	18.68	376	17.76	311	16.75
Credit cards and personal credit lines	151	5.31	112	5.34	101	5.52
Total allocated allowance for loan losses	2,017	100.00	1,411	100.00	1,172	100.00
	3,289		4,061		3,694	
Total allowance for loan losses	$ 5,306		$ 5,472		$ 4,866	

	1993		1992	
	Allowance For Loan Losses	Loans as Percentage of Gross Loans	Allowance For Loan Losses	Loans as Percentage of Gross Loans
Allocated allowance for loan losses				
Commercial	$ 1,120	57.18	$ 864	57.16
Real Estate	108	19.15	105	21.52
Installment	302	18.04	230	15.42
Credit cards and personal credit lines	95	5.63	87	5.90
Total allocated allowance for loan losses	1,625	100.00	1,286	100.00
	2,385		1,809	
Total allowance for loan losses	$ 4,010		$ 3,095	

ANALYSIS OF DEPOSITS
(in thousands of dollars)

The average daily deposits for the years ended December 31, 1996, 1995 and 1994, and the average rates paid on those deposits are summarized in the following table:

	1996		1995		1994	
	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid
Demand deposits	$ 69,459	0.00	$ 60,753	0.00	$ 52,893	0.00
Savings accounts:						
Regular savings	43,847	2.55	46,123	2.32	55,855	2.72
Interest bearing checking	53,625	2.20	55,355	2.41	58,945	2.36
Time deposits:						
Deposits of $100,000 or more	86,137	5.67	73,449	6.00	54,389	4.34
Other time deposits	208,499	5.39	177,992	5.64	148,251	4.61
Total deposits	$ 461,567	3.99	$ 413,672	4.07	$ 370,333	3.27

As of December 31, 1996, time certificates of deposit in denominations of $100,000 or more will mature as follows:

Within three months	$ 54,553
Over three months, within six months	20,170
Over six months, within twelve months	14,012
Over twelve months	9,208
Total time certificates of deposit in denominations of $100,000 or more	$ 97,943

RETURN ON EQUITY AND ASSETS

The rates of return on average daily assets and stockholders' equity, the dividend payout ratio, and the average daily stockholders' equity to average daily assets for the years ended December 31, 1996, 1995 and 1994 are as follows:

	1996	1995	1994
Percent of net income to:			
Average daily total assets	1.07	1.05	1.10
Average daily stockholders' equity	16.50	17.06	17.73
Percentage of dividends declared per common share to net income per weighted average number of common shares outstanding (2,896,992 shares in 1996, and 2,876,992 shares in 1995 and 1994)	20.72	18.88	16.57
Percentage of average daily stockholders' equity to average daily total assets	6.46	6.18	6.19

SHORT-TERM BORROWINGS

The following is a schedule of statistical information relating to securities sold under agreement to repurchase maturing within one year and are secured by either U.S. Government agency securities or mortgage-backed securities classified as other debt securities. There were no other categories of short-term borrowings for which the average balance outstanding during the period was 30 percent or more of shareholders' equity at the end of the period.

	1996	1995	1994
Outstanding at year end	$ 85,611	$ 58,151	$ 41,750
Approximate average interest rate at year end	5.11%	5.35%	5.11%
Highest amount outstanding as of any month end during the year	$ 89,433	$ 79,334	$ 50,460
Approximate average outstanding during the year	$ 73,728	$ 61,398	$ 42,584
Approximate average interest rate during the year	5.33%	5.69%	3.96%

Securities sold under agreement to repurchase include both transactions initiated by the investment division of the Bank, as well as the automatic borrowings from selected demand deposit customers who had excess balances in their accounts.

ITEM 2. PROPERTIES

The Bank conducts its operations from the following locations:

Branches/Headquarters

Main / Headquarters	202 E. Center St.	Warsaw	IN
Warsaw Drive-up	East Center St.	Warsaw	IN
Akron	102 East Rochester	Akron	IN
Argos	100 North Michigan	Argos	IN
Bremen	1600 Indiana State Road 331	Bremen	IN
Columbia City	507 North Main St.	Columbia City	IN
Concord	4202 Elkhart Road	Goshen	IN
Cromwell	111 North Jefferson St.	Cromwell	IN
Elkhart	864 East Beardsley St.	Elkhart	IN
Elkhart East	22050 State Road 120	Elkhart	IN
Goshen Downtown	102 North Main St.	Goshen	IN
Goshen South	2513 South Main St.	Goshen	IN
Hubbard Hill	58404 St. Road 19	Elkhart	IN
Kendallville	631 Professional Way	Kendallville	IN
LaGrange	901 South Detroit	LaGrange	IN
Ligonier	1470 U.S. Highway 33 South	Ligonier	IN
Mentone	202 East Main St.	Mentone	IN
Middlebury	712 Wayne Ave.	Middlebury	IN
Milford	Indiana State Road 15 North	Milford	IN
Nappanee	202 West Market St.	Nappanee	IN
North Webster	644 North Main St.	North Webster	IN
Pierceton	202 South First St.	Pierceton	IN
Roann	110 Chippewa St.	Roann	IN
Rochester	507 East 9th St.	Rochester	IN
Shipshewana	895 North Van Buren St.	Shipshewana	IN
Silver Lake	102 Main St.	Silver Lake	IN
Syracuse	502 South Huntington	Syracuse	IN
Wabash North	1004 North Cass St.	Wabash	IN
Wabash South	1940 South Wabash St.	Wabash	IN
Warsaw East	3601 Commerce Dr.	Warsaw	IN
Warsaw West	1221 West Lake St.	Warsaw	IN
Winona Lake	99 Chestnut St.	Winona Lake	IN

The Bank leases from third parties the real estate and buildings for its offices in Akron and Milford. In addition, the Bank leases the real estate for its Wabash North office and its free-standing ATMs. All the other branch facilities are owned by the Bank. The Bank also owns parking lots in downtown Warsaw for the use and convenience of Bank employees and customers, as well as leasehold improvements, equipment, furniture and fixtures necessary and appropriate to operate the banking facilities.

In addition, the Bank owns a building at 110 South High St., Warsaw, Indiana, which it uses for various offices and a building at 113 East Center St., Warsaw, Indiana, which it uses for office and computer facilities. The Bank also leases from third parties facilities in Warsaw, Indiana, for the storage of supplies and for employee training.

None of the Bank's assets are the subject of any material encumbrances.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings other than ordinary routine litigation incidental to the business to which the Registrant and the Bank are a party or of which any of their property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders from April 10, 1996 to December 31, 1996.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Information relating to the principal market for and the prices of the Registrant's common stock, and information as to dividends declared by the Registrant, are contained under the caption "Stock and Dividend Information" in the 1996 Annual Report and are incorporated herein by reference in response to this item. On December 31, 1996, the Registrant had 976 shareholders, including those employees who participate in the Registrant's 401(K) plan.

On January 9, 1996, Lakeland Financial Corporation sold 10,000 shares of authorized but previously unissued common stock for $41.50 per share. On April 30, 1996, Lakeland Financial Corporation common stock split two-for-one.

ITEM 6. SELECTED FINANCIAL DATA

A five year consolidated financial summary, containing the required selected financial data, appears under the caption "Selected Financial Data" in the 1996 Annual Report and is incorporated herein by reference in response to this item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 1996 Annual Report and is incorporated herein by reference in response to this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements appear in the 1996 Annual Report and are incorporated herein by reference in response to this item.

Consolidated Balance Sheets at December 31, 1996 and 1995.
Consolidated Statements of Income for the years ended December 31, 1996, 1995 and 1994.
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1996, 1995 and 1994.
Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1995 and 1994.
Notes to Consolidated Financial Statements.
Report of Independent Auditors.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information appearing in the Registrant's definitive Proxy Statement dated March 13, 1997, is incorporated herein by reference in response to this item.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing in the Registrant's definitive Proxy Statement dated March 13, 1997, is incorporated herein by reference in response to this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing in the Registrant's definitive Proxy Statement dated March 13, 1997, is incorporated herein by reference in response to this item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing in the Registrant's definitive Proxy Statement dated March 13, 1997, is incorporated herein by reference in response to this item.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The documents listed below are filed as a part of this report:

(1) Financial Statements.

The following financial statements of the Registrant and its subsidiaries appear in the 1996 Annual Report and are specifically incorporated by reference under Item 8 of this Form 10-K, or are a part of this Form 10-K, as indicated and at the pages set forth below.

	Reference	
	Form 10-K	1996 Annual Report
Consolidated Balance Sheets at December 31, 1996 and 1995.		8
Consolidated Statements of Income for the years ended December 31, 1996, 1995 and 1994.		9
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1996, 1995 and 1994.		10
Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1995 and 1994.		11
Notes to Consolidated Financial Statements.		12 - 21
Report of Independent Auditors.		22

(2) Financial Statement Schedules

The financial statement schedules of the Registrant and its subsidiary have been omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.

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SIGNATURES

Pursuant to the requirements of Section 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAKELAND FINANCIAL CORPORATION

Date: March 11, 1997	By R Douglas Grant (R. Douglas Grant) President

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 11, 1997	R. Douglas Grant (R. Douglas Grant) Principal Executive Officer and Director
Date: March 11, 1997	Terry M. White (Terry M. White) Principal Financial and Accounting Officer
Date: March 11, 1997	Anna K. Duffin (Anna K. Duffin) Director
Date: March 11, 1997	Eddie Creighton (Eddie Creighton) Director
Date: March 11, 1997	L. Craig Fulmer (L. Craig Fulmer) Director
Date:	(Jerry L. Helvey) Director
Date:	(Kevin L. Lambright) Director
Date: March 11, 1997	Allan J. Ludwig (Allan J. Ludwig) Director
Date: March 11, 1997	J. Alan Morgan (J. Alan Morgan) Director
Date: March 11, 1997	Richard L. Pletcher (Richard L. Pletcher) Director
Date:	(Joseph P. Prout) Director
Date:	(Terry L. Tucker) Director
Date:	(G.L. White) Director

EXHIBIT INDEX

The following Exhibits are filed as part of this Report and not incorporated by reference from another document:

Exhibit 13 - 1996 Report to Shareholders with Report of Independent Auditors.

Exhibit 21 - Subsidiaries

Exhibit 27 - Financial Data Schedule

EXHIBIT 13

1996 Report to Shareholders with Report of Independent Auditors.

EXHIBIT 21

SUBSIDIARIES. The Registrant has one wholly owned subsidiary, Lake City Bank, Warsaw, Indiana, a banking corporation organized under the laws of the State of Indiana.

Annual Meeting

The annual meeting of the shareholders of Lakeland Financial Corporation will be held at noon, April 8, 1997, at the Shrine Building, Kosciusko County Fair Grounds, Warsaw, Indiana. As of December 31, 1996, there were 976 shareholders.

Special Notice: Form 10-K Available

The Corporation will provide without charge to each shareholder, Lakeland Financial Corporation's Annual Report on Form 10-K, including financial statements and schedules thereto required to be filed with the Securities and Exchange Commission for the Corporation's most recent fiscal year upon written request of Mr. Terry M. White, Secretary and Treasurer, P.O. Box 1387, Warsaw, Indiana 46581-1387. The Form 10-K and related exhibits are also available on the Internet at www.sec.gov.

Registrar and Transfer Agent

Lake City Bank
Trust Department
P.O. Box 1387
Warsaw, Indiana 46581-1387

Stock and Dividend Information

The following companies have indicated they are active in trading Lakeland Financial Corporation stock and have reported the bid-ask prices for the Corporation's stock as set forth in the Selected Quarterly Data. Such bid-ask prices are not a definite indication that sales transactions occurred at these prices or that sales did not occur outside of these prices. The trading volume of the Corporation's stock continues to be limited, as a result, these quotations do not necessarily reflect the price at which the Corporation's stock would trade in a more active market.

Roney & Company, P.O. Box 130, Elkhart, Indiana, 46515, 1-800-43-Roney
McDonald and Company Securities, Inc., 214 South Main Street, Elkhart, Indiana, 46516, 219-294-2526
Edward D. Jones & Co. , P.O. Box 1097, Warsaw, Indiana, 46581, 1-800-441-2914

President's Letter

The year 1996 was a productive year for your Corporation. Despite interest margin pressures experienced by all banks and the continued restructuring within the industry, we are pleased to report record earnings for the ninth consecutive year. In 1996, your Corporation earned $6,444,000, which is an increase of 14 percent over 1995. Per share earnings were $2.22 in 1996 compared to $1.96 the year earlier.

At year-end 1995, the Corporation's stock price, adjusted for the stock split during 1996, was $20.75 per share. At year-end 1996, the Corporation's stock was being sold for $31.00 per share, an increase of $10.25 or 49 percent over year-end 1995. This increase reflects the continued strong financial performance of the Corporation. With these results, the Board of Directors increased the annual dividend rate by 20 percent during 1996 to $.48 per share.

During 1996, we continued to seek opportunities to profitably invest our capital. This resulted in the opening of two new offices during the year, increasing our total to 31 offices serving Kosciusko and surrounding counties. This expansion and growth resulted in a record level of assets, $657 million at year-end, an increase of $88 million over 1995. This expansion and growth is also evident in total loans which increased $55 million, or about 17 percent, ending the year at $382 million. The increase in loans was funded by increases in both deposits and repurchase agreements. Total deposits and repurchase agreements, commonly referred to as core funding, increased $92 million, or approximately 19 percent.

Net interest income is a primary component of profitability. One would expect that as the Corporation's assets grow, so would net interest income dollars. This was indeed the case in 1996 as net interest income was $22.1 million, an increase of $1.9 million over 1995. However, throughout the banking industry there is continued pressure on the net interest margin. This means that the profit we generate on each dollar that the Corporation lends or invests today is less than in prior years. For your Corporation this slight reduction in the margin is primarily due to the competitive pressures found within the markets we serve, and is an indication of the strong vibrant economies where we do business. Strong economies promote profitability by generating deposits and creating strong loan demand. The loan demand quality has been excellent and thus the quality of the Corporation's assets remained good in 1996. This resulted in a relatively low provision for loan losses of $120,000 in 1996.

Another strong area of performance was noninterest income. Fees related to trust services, loan and deposit accounts, and new electronic bank products like the 24 Hour Bank card all contributed. The total increase in these components, along with a $253,000 increase in the gains on the sale of real estate mortgages, resulted in total noninterest income of $5.8 million in 1996, an increase of $1.0 million over 1995. The increase in the gain on the sale of real estate mortgages reflects the sale of approximately $20 million of real estate mortgages.

Noninterest expense increased $1.7 million, or 10 percent. Increases in salaries, employee benefits and equipment costs were a result of expenses related to the five new offices added during the past 18 months, and the technology costs necessary to continue providing the highest level of customer service. It is our expectation that these expenses will continue to increase in future years as we pursue a strategy of expanding into profitable new locations while continuing to streamline and centralize back-room operations.

Electronic services are enhancing our position as a leader in the financial community. Bill Payment Service facilitates automatic payments through the computer or telephone. This feature is innovative and responsive to present day customers who expect technology from their financial institutions to expedite their transactions quickly and securely. Bill Payment Service is the payment alternative that takes just minutes to learn.

We are developing a Home Page on the Internet to be more responsive to the ever-growing population of techno-savvy customers that expect self-service options in their banking relationships. Establishment of our domain name, lakecitybank.com will be a convenient address for customers. In 1997, this secure site will provide E-mail capabilities. Future site enhancements will include account information and funds transfer.

In 1995, value was added to our checking accounts with the introduction of the 24 Hour Visa Check Card. Customers enjoy the convenience of making purchases without writing a check or carrying large amounts of cash. In 1996, 24 Hour Visa Check Card activity increased by 94 percent and bank income from this product increased by 103 percent.

Direct Deposit is a convenience used by many customers. Payroll and Social Security checks are deposited electronically from the employer's or government's account directly into the customer's checking or savings account each payday. The customer benefits include safety without lost or stolen checks, convenience of money put directly into the account without effort, no worry as to when the money is credited to the account, ability to write checks and earn interest without delay, and the flexibility for the customer to direct amounts into more than one account.

The introduction of our Direct Banking Center provides an efficient way of conducting business quickly and privately from the convenience of home or office. With the Direct Banking Center, customers can turn the telephone into their personal Lake City Bank office. Information regarding products, new account services, loan applications, investment opportunities, customer assistance, and a medley of other services is available 20 hours a day. For rotary telephone calls, voice recognition or a customer service representative is available. Lake City Bank is committed to serving customers with the local, personal touch while continuing to offer advanced technology that saves time, money and accommodates today's busy lifestyles.

Key to the success of the Mortgage Loan area is the expertise of the local officers and staff. With the addition of two originators, the "Loan Prospector" automated underwriting with electronic data interchange capabilities, and the streamlined processing of the mortgage pipeline, the result has been even quicker more efficient service. Mortgage loan volume increased substantially, and while we sold mortgage loans into the secondary market, we retained the servicing so that the customer continues to deal only with us.

Customer interest in trust services continues strong, particularly for estate planning, employee retirement plans, personal trust administration, charitable foundations, corporate trust, and individual asset management. Our trust and investment professionals provide quality, responsive, personal service in building long-term relationships with our customers and their families. Trust assets and income both increased over 24 percent in 1996.

Allan J. Ludwig was elected to the Lakeland Financial Corporation Board of Directors this fall. Mr. Ludwig lives near Bristol and is a local entrepreneur and industrial developer. He is a graduate of Loras College in Iowa where he now serves as a trustee. He filled a vacancy created when Dr. Homer Kent, former President of Grace College retired. Dr. Kent had joined the Board in 1983. We welcome Mr. Ludwig to the Board and will greatly miss Dr. Kent's advice and counsel.

Walter L. Weldy was promoted to Executive Vice President with principal responsibilities in the retail area. He has been with the Corporation for 6 years and has over 30 years of banking experience, including the presidency of a local bank. He has also served as President of Bethel College.

Senior Vice President Dennis Cultice was named manager of the Trust Department in addition to his duties heading up the Investment Department. Dennis holds a Bachelor of Science degree in Business Administration from Manchester College and has been with the bank for 12 years.

We opened an office in Kendallville in May on the east side of town. A third Elkhart location south on State Road 19 near Hubbard Hill was opened in the fall. A new free standing 24 Hour Teller is located near downtown Goshen in the Linway Plaza, bringing the total ATM's in our system to 24. Construction has started on an Elkhart office at North Nappanee and Bristol Streets. A full service office on State Road 23 in the middle of Granger will open later this year. Real estate has been purchased on North Main Street in Mishawaka with a late 1997 office opening planned. We also purchased the former Kline's building in downtown Warsaw for future possible expansion of back-room operations.

1996 was another record year for your Corporation. To our customers who are the reason for our existence, and to the employees who serve them efficiently and professionally, we owe sincere gratitude. You, as shareholders deserve the best we can offer. As the Corporation enters its 125th year of service, we are dedicated to continuing this effort.

R. Douglas Grant
President

LAKELAND FINANCIAL CORPORATION AND LAKE CITY BANK BOARD OF DIRECTORS

Picture	Picture	Picture	Picture
Eddie Creighton Partner and General Manager, Creighton Brothers	Anna K. Duffin Civic Leader	L. Craig Fulmer Chairman, Heritage Financial Group, Inc.	R. Douglas Grant Chairman and President, Lakeland Financial Corporation and Lake City Bank
Picture	Picture	Picture	Picture
Jerry L. Helvey President, Helvey & Associates, Inc	Allan J. Ludwig Industrial Developer	J. Alan Morgan Former President of Zimmer USA and Vice President of Bristol Myers Co.	Richard L. Pletcher President, Pletcher Enterprises, Inc.
Picture	Picture	Picture	Picture
Joseph P. Prout President, Owens Supermarket, Inc.	Philip G. Spear Former President, W.R. Thomas Stores, Inc.	Terry L. Tucker President, Maple Leaf Farms, Inc.	G.L. White Former President, United Telephone Company of Indiana

LAKELAND FINANCIAL CORPORATION OFFICERS

R. Douglas Grant ....Chairman and President
Paul S. Siebenmorgen ....Executive Vice President
Walter L. Weldy ....Executive Vice President
Terry M. White ....Secretary and Treasurer
James J. Nowak ....Assistant Secretary and Treasurer

Selected Financial Data (in thousands except for share and per share data)

	1996	1995	1994	1993	1992
Interest income	$ 45,941	$ 41,944	$ 33,556	$ 27,463	$ 27,500
Interest expense	23,737	21,642	14,887	12,022	13,622
Net interest income	22,204	20,302	18,669	15,441	13,878
Provision for loan losses	120	120	795	790	1,340
Net interest income after provision for loan losses	22,084	20,182	17,874	14,651	12,538
Other noninterest income	5,396	4,297	4,198	2,957	2,918
Net gains on sale of real estate mortgages held-for-sale	412	159	177	676	176
Net trading gains (losses)	0	0	0	0	(2)
Net securities gains (losses)	(9)	315	(7)	175	323
Noninterest expense	(17,935)	(16,244)	(14,092)	(12,378)	(10,832)
Income before income tax expense and cumulative effect of change in accounting principle	9,948	8,709	8,150	6,081	5,121
Income tax expense	3,504	3,064	3,024	2,171	1,762
Income before cumulative effect of change in accounting principle	6,444	5,645	5,126	3,910	3,359
Cumulative effect of adopting SFAS No. 109	0	0	0	325	0
Net income	$ 6,444	$ 5,645	$ 5,126	$ 4,235	$ 3,359
Average shares outstanding*	2,896,992	2,876,992	2,876,992	2,876,992	2,876,992
Per average common share outstanding:*					
Income before cumulative effect of change in accounting principle	$ 2.22	$ 1.96	$ 1.78	$ 1.36	$ 1.17
Net income	$ 2.22	$ 1.96	$ 1.78	$ 1.47	$ 1.17
Cash dividends declared	$ 0.46	$ 0.37	$ 0.30	$ 0.25	$ 0.21
Balances at December 31:					
Total assets	$ 656,551	$ 568,579	$ 496,963	$ 449,954	$ 362,497
Total deposits	$ 496,553	$ 431,934	$ 396,740	$ 370,032	$ 284,308
Long-term debt	$ 23,531	$ 17,432	$ 17,432	$ 9,300	$ 8,000
Total stockholders' equity	$ 42,043	$ 36,754	$ 29,889	$ 27,912	$ 23,750

* Adjusted for a 2-for-1 stock split April 30, 1996.

Selected Quarterly Data (in thousands except for per share data) (unaudited)

	1996			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 12,032	$ 11,708	$ 11,267	$ 10,934
Interest expense	6,212	6,076	5,754	5,695
Net interest income	5,820	5,632	5,513	5,239
Provision for loan losses	30	30	30	30
Noninterest income	1,491	1,477	1,477	1,354
Noninterest expense	4,777	4,661	4,273	4,224
Income tax expense	889	807	973	835
Net income	$ 1,615	$ 1,611	$ 1,714	$ 1,504
Net income per common share *	$ 0.56	$ 0.55	$ 0.59	$ 0.52
Stock and Dividend Information				
Trading range (per share)*				
Bid	$ 26.75	$ 25.50	$ 22.25	$ 20.75
Ask	$ 31.00	$ 27.00	$ 26.75	$ 23.00
Dividends declared (per share)*	$ 0.12	$ 0.12	$ 0.12	$ 0.10

	1995			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 11,102	$ 10,928	$ 10,256	$ 9,658
Interest expense	5,796	5,805	5,232	4,809
Net interest income	5,306	5,123	5,024	4,849
Provision for loan losses	30	30	30	30
Noninterest income	1,456	1,177	1,088	1,050
Noninterest expense	4,315	4,016	4,087	3,826
Income tax expense	865	814	648	737
Net income	$ 1,552	$ 1,440	$ 1,347	$ 1,306
Net income per common share *	$ 0.54	$ 0.50	$ 0.47	$ 0.45
Stock and Dividend Information				
Trading range (per share)*				
Bid	$ 19.75	$ 18.00	$ 17.00	$ 16.50
Ask	$ 20.75	$ 19.75	$ 18.75	$ 17.75
Dividends declared (per share)*	$ 0.10	$ 0.10	$ 0.09	$ 0.08

* Adjusted for a 2-for-1 stock split April 30, 1996.

Consolidated Balance Sheets (in thousands)

	December 31 1996	December 31 1995
ASSETS		
Cash and due from banks	$ 41,190	$ 26,185
Short-term investments	3,689	710
Total cash and cash equivalents	44,879	26,895
Securities available-for-sale (carried at fair value)	81,842	82,120
Securities held-to-maturity (fair value of $126,373 at 1996 and $115,328 at 1995)	125,274	113,888
Real estate mortgages held-for-sale	895	145
Total loans	382,265	327,617
Less allowance for loan losses	5,306	5,472
Net loans	376,959	322,145
Land, premises and equipment, net	16,014	13,736
Accrued income receivable	4,254	4,003
Other assets	6,434	5,647
Total assets	$ 656,551	$ 568,579
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	$ 77,664	$ 67,856
Interest bearing deposits	418,889	364,078
Total deposits	496,553	431,934
Short-term borrowings		
Federal funds purchased	0	17,100
Securities sold under agreements to repurchase	85,611	58,151
U.S. Treasury demand notes	2,769	1,880
Total short-term borrowings	88,380	77,131
Accrued expenses payable	5,033	4,481
Other liabilities	1,011	847
Long-term debt	23,531	17,432
Total liabilities	614,508	531,825
Commitments, off-balance sheet risks and contingencies		
STOCKHOLDERS' EQUITY		
Common stock: $.50 stated value, 10,000,000 shares authorized, 2,896,992 shares issued and outstanding as of December 31, 1996; $1.00 stated value, 2,750,000 shares authorized, 1,438,496 shares issued and outstanding as of December 31, 1995	1,448	1,438
Additional paid-in capital	8,232	7,827
Retained earnings	31,967	26,858
Unrealized net gain (loss) on securities available-for-sale	396	631
Total stockholders' equity	42,043	36,754
Total liabilities and stockholders' equity	$ 656,551	$ 568,579

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

Consolidated Statements of Income (in thousands except for share data)

	Years Ended December 31		
	1996	1995	1994
NET INTEREST INCOME			
Interest and fees on loans			
Taxable	$ 32,724	$ 29,859	$ 23,658
Tax-exempt	246	257	273
Interest and dividends on securities			
Taxable	11,348	10,588	8,743
Tax-exempt	1,378	1,038	727
Interest on short-term investments	245	202	155
Total interest income	45,941	41,944	33,556
Interest on deposits	18,411	16,847	12,108
Interest on borrowings			
Short-term	4,213	3,803	1,879
Long-term	1,113	992	900
Total interest expense	23,737	21,642	14,887
NET INTEREST INCOME	22,204	20,302	18,669
Provision for loan losses	120	120	795
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,084	20,182	17,874
NONINTEREST INCOME			
Trust income	881	709	609
Service charges on deposits	2,809	2,262	2,078
Other income	1,706	1,326	1,511
Net gains on the sale of real estate mortgages held-for-sale	412	159	177
Net securities gains (losses)	(9)	315	(7)
Total noninterest income	5,799	4,771	4,368
NONINTEREST EXPENSE			
Salaries and employee benefits	9,570	8,521	7,278
Net occupancy expense	1,339	1,229	1,057
Equipment costs	1,616	1,375	1,001
Other expense	5,410	5,119	4,756
Total noninterest expense	17,935	16,244	14,092
INCOME BEFORE INCOME TAX EXPENSE	9,948	8,709	8,150
Income tax expense	3,504	3,064	3,024
NET INCOME	$ 6,444	$ 5,645	$ 5,126
AVERAGE COMMON SHARES OUTSTANDING	2,896,992	2,876,992	2,876,992
NET INCOME PER COMMON SHARE	$ 2.22	$ 1.96	$ 1.78

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

Consolidated Statements of Changes in Stockholders' Equity (in thousands except for share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Unrealized Net Gain (Loss) on Securities Available-for-Sale	Total Stockholders' Equity
Balances, January 1, 1994	1,438,496	$ 1,438	$ 7,827	$ 18,001	$ 646	$ 27,912
Net income for 1994				5,126		5,126
Net change in unrealized gain (loss) on securities available-for-sale					(2,301)	(2,301)
Cash dividend declared ($.30 per share)				(848)		(848)
Balances, December 31, 1994	1,438,496	1,438	7,827	22,279	(1,655)	29,889
Net income for 1995				5,645		5,645
Net change in unrealized gain (loss) on securities available-for-sale					2,286	2,286
Cash dividend declared ($.37 per share)				(1,066)		(1,066)
Balances, December 31, 1995	1,438,496	1,438	7,827	26,858	631	36,754
Net income for 1996				6,444		6,444
Net change in unrealized gain (loss) on securities available-for-sale					(235)	(235)
Issued 10,000 shares	10,000	10	405			415
Shares issued in 2-for-1 stock split	1,448,496					
Cash dividend declared ($.46 per share)				(1,335)		(1,335)
Balances, December 31, 1996	2,896,992	$ 1,448	$ 8,232	$ 31,967	$ 396	$ 42,043

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

Consolidated Statements of Cash Flows (in thousands)

	Years Ended December 31		
	1996	1995	1994
Cash flows from operating activities			
Net income	$ 6,444	$ 5,645	$ 5,126
Adjustments to reconcile net income to net cash from operating activities			
Depreciation	1,277	1,209	928
Provision for loan losses	120	120	795
Write down of other real estate owned	20	0	0
Loans originated for sale	(27,599)	(29,679)	(9,426)
Net (gain) loss on sale of loans	(412)	(159)	(177)
Proceeds from sale of loans	27,261	29,868	11,619
Net (gain) loss on sale of premises and equipment	3	0	1
Net (gain) loss on sale of securities available-for-sale	0	(331)	0
Net (gain) loss on calls of securities held-to-maturity	9	16	7
Net securities amortization	256	180	444
Increase (decrease) in taxes payable	237	(822)	(15)
(Increase) decrease in income receivable	(251)	(539)	(606)
Increase (decrease) in accrued expenses payable	360	1,227	340
(Increase) decrease in other assets	(698)	411	1,735
Increase (decrease) in other liabilities	164	888	(495)
Total adjustments	747	2,389	5,150
Net cash from operating activities	7,191	8,034	10,276
Cash flows from investing activities			
Proceeds from sale of securities available-for-sale	0	7,563	0
Proceeds from maturities and calls of securities held-to-maturity	8,784	6,268	8,899
Proceeds from maturities and calls of securities available-for-sale	14,130	5,022	6,409
Purchases of securities available-for-sale	(14,429)	(20,014)	(9,033)
Purchases of securities held-to-maturity	(20,247)	(22,900)	(19,494)
Net (increase) decrease in total loans	(54,934)	(39,174)	(27,709)
Purchases of land, premises and equipment	(3,558)	(3,650)	(2,490)
Net proceeds (payments) from acquisitions	0	(1,380)	0
Net cash from investing activities	(70,254)	(68,265)	(43,418)
Cash flows from financing activities			
Net increase in total deposits	64,619	35,194	26,708
Proceeds from short-term borrowings	849,944	522,102	395,939
Payments on short-term borrowings	(838,695)	(493,294)	(385,553)
Proceeds from long-term borrowings	14,000	0	8,132
Payments on long-term borrowings	(8,000)	0	0
Proceeds under capital lease obligations	118	0	0
Payments under capital lease obligations	(19)	0	0
Dividends paid	(1,335)	(1,023)	(806)
Proceeds from sale of common stock	415	0	0
Net cash from financing activities	81,047	62,979	44,420
Net increase (decrease) in cash and cash equivalents	17,984	2,748	11,278
Cash and cash equivalents at beginning of the year	26,895	24,147	12,869
Cash and cash equivalents at end of year	$ 44,879	$ 26,895	$ 24,147
Cash paid during the year for:			
Interest	$ 23,239	$ 21,052	$ 14,496
Income taxes	$ 3,420	$ 3,116	$ 3,038
Securities transferred from held-to-maturity to available-for-sale	$ 0	$ 12,918	$ 0
Loans transferred to other real estate	$ 334	$ 0	$ 107

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:

Lakeland Financial Corporation (the Corporation) is a bank holding company as defined in the Bank Holding Company Act of 1956. The Corporation owns all of the outstanding stock of Lake City Bank (the Bank), a full service commercial bank organized under Indiana law, and conducts no business except that incident to its ownership of the Bank. The Bank is headquartered in Warsaw, Indiana, and has 31 branch offices in eight counties in northern Indiana.

Use of Estimates:

In preparing financial statements in conformity with generally accepted accounting principles, management must make estimates and assumptions. These estimates and assumptions affect the amounts reported therein and the disclosures provided. Actual results could differ from these estimates.

Areas involving the use of management's estimates and assumptions include the allowance for loan losses, the fair value of mortgage servicing rights, the realization of deferred tax assets, fair values of certain securities, the determination and carrying value of impaired loans, the carrying value of loans held-for-sale, the carrying value of other real estate, the determination of other-than-temporary reductions in the fair value of securities, recognition and measurement of loss contingencies, depreciation of premises and equipment, the carrying value and amortization of intangibles, the actuarial present value of pension benefit obligations, and net periodic pension expense and accrued pension costs recognized in the Corporation's financial statements. Estimates that are more susceptible to change in the near term include the allowance for loan losses, the fair value of financial instruments, the fair value of mortgage servicing rights and the realization of deferred tax assets.

Principles of Consolidation:

The consolidated financial statements include Lakeland Financial Corporation and its wholly-owned subsidiary, Lake City Bank. All significant intercompany balances and transactions are eliminated in consolidation.

Securities:

The Corporation classifies securities into held-to-maturity, available-for-sale and trading categories. Held-to-maturity securities are those which the Corporation has the positive intent and ability to hold to maturity, and are reported at amortized cost. Available-for-sale securities are those the Corporation may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains and losses included as a separate component of equity, net of tax. Trading securities are bought principally for sale in the near term, and are reported at fair value with unrealized gains and losses included in earnings. Realized gains and losses resulting from the sale of securities are computed by the specific identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

In November 1995, the Financial Accounting Standards Board issued its Special Report 'A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities' (Guide). As permitted by the Guide, on December 4, 1995, the Corporation made a one-time reassessment and transferred securities from the held-to-maturity portfolio to the available-for-sale portfolio. At the date of the transfer, these securities had an amortized cost of $12,918,000 and increased the unrealized gain on securities available-for-sale in stockholders' equity by $446,000, net of tax.

Real Estate Mortgages Held-for-Sale:

Real estate mortgages classified as held-for-sale to the secondary market are carried at the lower of aggregate cost or estimated fair value. Net unrealized losses are recognized in a valuation allowance by charges to income. Gains and losses on sales of mortgages are recognized on the settlement date. Gains and losses are determined by the difference between sales proceeds and the carrying value of the mortgages.

Mortgage Servicing Rights:

The Corporation originates mortgage loans for sale to the secondary market, and sells the loans with servicing retained. Effective January 1, 1996, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 122 on accounting for mortgage servicing rights, which requires capitalizing the rights to service originated mortgage loans sold. The total cost of mortgage loans originated with the intent to sell is allocated between the mortgage servicing right and the mortgage loan without servicing, based upon the relative fair values. The capitalized cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenue.

Impairment of mortgage servicing rights is assessed based upon the fair value of those rights. For purposes of measuring impairment, the rights are stratified based upon loan type, term and note rate. The amount of impairment is the amount by which the capitalized mortgage servicing rights for a stratum exceeds their fair value. Fair values for individual stratum are based upon the present value of estimated future cash flows using a discount commensurate with the risks involved. Estimates of fair value include assumptions about prepayment, default and interest rates, and other factors which are subject to change over time.

Loans:

Loans are reported at the principal balance outstanding, net of deferred loan fees and costs, the allowance for loan losses, and charge-offs. Interest is accrued over the loan term based upon the principal balances outstanding. Loan fees and related costs are netted and deferred. The deferral is included in loans and recognized in interest income over the loan term on the level yield method. Loans are placed on nonaccrual when interest collection becomes doubtful. All unpaid accrued interest is reversed and interest income is subsequently recognized only to the extent cash payments are received.

Concentration of Credit:

The Bank is a full service bank with headquarters in Warsaw, Indiana with offices in 25 cities and towns located within Kosciusko and contiguous counties. It is estimated that over 98% of all the Bank's commercial, industrial, agri-business and agricultural real estate mortgage, real estate construction mortgage and consumer loans are made within its basic trade area. This area generally lies within a radius of 10 miles or less from any of its existing offices. The loan portfolios are well diversified and are secured to the extent deemed appropriate by management. Mortgage-backed securities are collateralized by mortgages located throughout the United States. Substantially all mortgage-backed securities are insured directly or indirectly by the U. S. Government.

Allowance for Loan Losses:

The allowance is judgmentally determined by management and is maintained at a level considered adequate to cover losses currently anticipated based on past loss experience, general national and local economic conditions, information about specific borrower situations, including their financial

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

position and collateral values, and other factors and estimates which may change over time. While management may periodically allocate portions of the allowance for specific problem loan situations, the whole allowance is available for any loan charge-off that might occur. A loan is charged-off as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur. Increases to the allowance are recorded by a charge to expense and are based upon subjective judgments.

The Corporation adopted SFAS No. 114 and SFAS No. 118 on January 1, 1995. Under these standards, loans considered to be impaired are reduced to the present value of future cash flows or to the fair value of collateral, by allocating a portion of the allowance for loan losses to such loans. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as provision for loan losses. As part of the loan review process, management reviews all loans classified as 'special mention' or below for impairment, as well as other loans that might warrant application of SFAS No. 114. Smaller-balance homogeneous loans are evaluated for impairment in total. Such loans include residential first mortgage loans secured by one-to-four family residences, residential construction loans, automobile, home equity and second mortgage loans. The effect of adopting this accounting standard on January 1, 1995, was not material.

The carrying values of impaired loans are periodically adjusted to reflect cash payments, revised estimates of future cash flows, and increases in the present value of expected cash flows due to the passage of time. Cash payments representing interest income are reported as such. Other cash payments are reported as reductions in carrying value, while increases or decreases due to changes in estimates of future payments and due to the passage of time are reported as provision for loan losses.

Land, Premises and Equipment:

Land, premises, and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed on both straight-line and declining-balance methods based on estimated useful lives of the assets. These assets are reviewed for impairment under SFAS No. 121 when events indicate the carrying amount may not be recoverable.

Other Real Estate Owned:

Other real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value at the date of acquisition. Any reduction to fair value from the carrying value of the related loan at the time of acquisition is accounted for as a loan loss and charged against the allowance for loan losses. After acquisition, a valuation allowance is recorded through a charge to income for the amount of estimated selling costs. Valuations are periodically performed by management, and valuation allowances are adjusted through a charge to income for changes in fair value or estimated selling costs. Other real estate owned, other than Corporate premises, amounted to $917,000, net of a $285,000 valuation allowance and $1,109,000, net of a $415,000 valuation allowance at December 31, 1996 and 1995, respectively, and is included in other assets in the consolidated balance sheets.

Income Taxes:

The Corporation files annual consolidated federal income tax returns. The Corporation records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future tax consequences of temporary differences between carrying amounts and tax bases of assets and liabilities, using enacted tax rates.

Dividend Restriction:

The Bank is subject to banking regulations which require the maintenance of certain capital levels and which may limit the amount of dividends which may be paid to the Corporation. At December 31, 1996, approximately $4,984,000 of the Bank's retained earnings is available for distribution to the Corporation without prior regulatory approval.

Fair Values of Financial Instruments:

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed separately. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance sheet financial instruments do not include the value of anticipated future business or the values of assets and liabilities not considered financial instruments.

Earnings Per Share:

Earnings per common share are based upon the weighted average number of common shares outstanding and are restated to reflect any stock dividends or splits.

Pension Plan:

A noncontributory defined benefit pension plan covers substantially all employees. Funding of the plan equals or exceeds the minimum funding requirement determined by the actuary. The projected unit credit cost method is used to determine expense. Benefits are based on years of service and compensation levels.

Cash Equivalents:

Cash and cash equivalents include cash on hand, demand deposits in other institutions and short-term investments with maturities of 90 days or less.

Reclassifications:

Certain amounts appearing in the financial statements and notes thereto for prior periods have been reclassified to conform with the current presentation.

NOTE 2 - PENDING ACCOUNTING CHANGES

SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, was issued by the Financial Accounting Standards Board in 1996. It revises the accounting for transfers of financial assets, such as loans and securities, and for distinguishing between sales and secured borrowings. It is effective for some transactions in 1997 and others in 1998. The effect on the consolidated financial statements has not yet been determined.

NOTE 3 - SECURITIES

Information related to the amortized cost and fair value of securities at December 31 is provided in the table below.

	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
	(in thousands)			
Securities available-for-sale at December 31, 1996				
U.S. Treasury securities	$ 31,604	$ 261	$ (61)	$ 31,804
U.S. Government agencies and corporations	500	7	0	507
Mortgage-backed securities	46,002	502	(172)	46,332
State and municipal securities	2,081	86	0	2,167
Other debt securities	1,000	32	0	1,032
Total securities available-for-sale at December 31, 1996	$ 81,187	$ 888	$ (233)	$ 81,842
Securities held-to-maturity at December 31, 1996				
U.S. Treasury securities	$ 17,020	$ 113	$ (56)	$ 17,077
U.S. Government agencies and corporations	2,262	101	(1)	2,362
Mortgage-backed securities	83,811	545	(637)	83,719
State and municipal securities	21,172	946	(23)	22,095
Other debt securities	1,009	111	0	1,120
Total securities held-to-maturity at December 31, 1996	$ 125,274	$ 1,816	$ (717)	$ 126,373
Securities available-for-sale at December 31, 1995				
U.S. Treasury securities	$ 27,549	$ 378	$ (83)	$ 27,844
U.S. Government agencies and corporations	2,150	41	0	2,191
Mortgage-backed securities	48,302	785	(244)	48,843
State and municipal securities	2,076	100	0	2,176
Other debt securities	999	67	0	1,066
Total securities available-for-sale at December 31, 1995	$ 81,076	$ 1,371	$ (327)	$ 82,120
Securities held-to-maturity at December 31, 1995				
U.S. Treasury securities	$ 13,611	$ 34	$ (69)	$ 13,576
U.S. Government agencies and corporations	2,898	141	(6)	3,033
Mortgage-backed securities	77,319	878	(726)	77,471
State and municipal securities	19,047	1,066	(36)	20,077
Other debt securities	1,013	158	0	1,171
Total securities held-to-maturity at December 31, 1995	$ 113,888	$ 2,277	$ (837)	$ 115,328

Information regarding the amortized cost and fair value of debt securities by maturity as of December 31, 1996, 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 prepayment penalty.

	Available-for-Sale December 31, 1996		Held-to-Maturity December 31, 1996	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$ 12,327	$ 12,397	$ 6,165	$ 6,158
Due after one year through five years	21,371	21,569	15,748	16,051
Due after five years through ten years	0	0	976	1,000
Due after ten years	1,487	1,544	18,574	19,445
	35,185	35,510	41,463	42,654
Mortgage-backed securities	46,002	46,332	83,811	83,719
Total debt securities	$ 81,187	$ 81,842	$ 125,274	$ 126,373

NOTE 3 - SECURITIES (continued)

Security proceeds, gross gains and gross losses for 1996, 1995 and 1994 were as follows:

	1996	1995	1994
		(in thousands)	
Sales and calls of securities available-for-sale			
Proceeds	$ 650	$ 7,563	$ 0
Gross gains	0	348	0
Gross losses	0	17	0
Calls of securities held-to-maturity			
Proceeds	$ 802	$ 414	$ 249
Gross gains	0	0	10
Gross losses	9	16	17

Securities with carrying values of $121,109,000 and $100,572,000 were pledged as of December 31, 1996 and 1995, respectively, as collateral for deposits of public funds, securities sold under agreements to repurchase and for other purposes as permitted or required by law.

NOTE 4 - TOTAL LOANS

Total loans outstanding as of December 31, 1996 and 1995, consist of the following:

	1996	1995
	(in thousands)	
Commercial and industrial loans	$ 202,532	$ 173,368
Agri-business and agricultural loans	27,072	22,627
Real estate mortgage loans	59,302	54,724
Real estate construction loans	1,647	1,224
Installment loans and credit cards	91,712	75,674
Total loans	$ 382,265	$ 327,617

Loans aggregating $60,000 or more with executive officers and directors (including their associates) amounted to $12,789,000 and $6,028,000 as of December 31, 1996 and 1995, respectively. During 1996, new loans or advances were $34,017,000, loan repayments were $32,762,000 and other changes were $5,506,000.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were $51,802,000 and $37,117,000 at December 31, 1996 and 1995, respectively. The balance of loans serviced for others related to servicing rights that have been capitalized was $19,537,000 at December 31, 1996. The remaining balance of loans serviced for others also have servicing rights associated with them, however, these servicing rights arose prior to adoption of SFAS 122, and accordingly have not been capitalized on the balance sheet. Income earned for loan servicing was $96,000, $82,000 and $68,000 for 1996, 1995 and 1994, respectively. Mortgage servicing rights of $220,000 were capitalized in 1996. Amortization of mortgage servicing rights included in income earned for loan servicing was $15,000 in 1996.

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The following is an analysis of the allowance for loan losses for 1996, 1995 and 1994:

	1996	1995	1994
		(in thousands)	
Balance, January 1	$ 5,472	$ 4,866	$ 4,010
Allowance related to acquisitions	0	746	0
Provision for loan losses	120	120	795
Loans charged-off	368	355	135
Recoveries	82	95	196
Net loans charged-off (recoveries)	286	260	(61)
Balance, December 31	$ 5,306	$ 5,472	$ 4,866

Nonaccrual loans at December 31, 1996, 1995 and 1994, totaled $384,000, $532,000 and $18,000, respectively. Interest lost on nonaccrual loans was approximately $35,000 and $29,000 for 1996 and 1995, respectively. The amount of interest lost for 1994 was not material. Loans renegotiated as troubled debt restructuring totaled $1,284,000 and $1,432,000 as of December 31, 1996 and 1995, respectively. Interest income of $85,000, $96,000 and $82,000 was recognized in 1996, 1995 and 1994. Had these loans been performing under the original contract terms, an additional $44,000 would have been reflected in interest income during 1996, $53,000 in 1995 and $31,000 in 1994. The Corporation is not committed to lend additional funds to debtors whose loans have been modified. During 1996 and 1995, the Corporation had no loans meeting the definition of impaired under SFAS No. 114.

NOTE 6 - LAND, PREMISES AND EQUIPMENT, NET

Land, premises and equipment and related accumulated depreciation were as follows at December 31:

	1996	1995
	(in thousands)	
Land	$ 4,344	$ 3,648
Buildings	12,356	10,568
Equipment	8,001	7,069
Total cost	24,701	21,285
Less accumulated depreciation	8,687	7,549
Land, premises and equipment, net	$ 16,014	$ 13,736

NOTE 7 - DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of $100,000, was approximately $97,943,000 and $62,363,000 at December 31, 1996 and 1995, respectively.

At December 31, 1996, the scheduled maturities of time deposits are as follows:

	Amount
	(in thousands)
Maturing in 1997	$ 229,858
Maturing in 1998	35,173
Maturing in 1999	16,751
Maturing in 2000	6,299
Maturing in 2001	3,368
Thereafter	17,094
Total time deposits	$ 308,543

Deposits of executive officers and directors (including their associates) totalled $3,652,000 and $3,352,000 at December 31, 1996 and 1995, respectively.

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase (repo accounts) represent collateralized borrowings with customers located primarily within the Corporation's trade area. Information on these liabilities and the related collateral for 1996 and 1995 is as follows:

	1996	1995
	(in thousands)	
Average balance during the year	$ 73,728	$ 61,398
Average interest rate during the year	5.33%	5.69%
Maximum month-end balance during the year	$ 89,433	$ 79,419
Securities underlying the agreements at year-end		
Amortized cost	$ 87,817	$ 59,934
Fair Value	$ 88,004	$ 60,458

			Collateral Value			
			U.S. Treasury Securities		Mortgage-backed Securities	
Term	Repurchase Liability	Weighted Average Interest Rate	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)		(in thousands)			
On demand	$ 32,730	4.18%	$ 0	$ 0	$ 32,939	$ 32,982
1 to 30 days	9,707	5.39	1,571	1,531	8,669	8,697
31 to 90 days	21,732	5.56	2,453	2,479	19,415	19,419
Over 90 days	21,442	5.95	12,625	12,700	10,145	10,196
Total	$ 85,611	5.11%	$ 16,649	$ 16,710	$ 71,168	$ 71,294

The Corporation retains the right to substitute similar type securities, and has the right to withdraw all collateral applicable to repo accounts whenever the collateral values are in excess of the related repurchase liabilities. At December 31, 1996, there were no material amounts of securities at risk with any one customer. The Corporation maintains control of these securities through the use of third-party safekeeping arrangements.

NOTE 9 - LONG -TERM DEBT

Long-term debt at December 31 consisted of:

	1996	1995
	(in thousands)	
Federal Home Loan Bank of Indianapolis Notes, 5.55%, Due January 2, 1996	$ 0	$ 8,000
Federal Home Loan Bank of Indianapolis Notes, 5.59%, Due January 14, 1997	8,132	8,132
Federal Home Loan Bank of Indianapolis Notes, 5.92% Due December 7, 1998	4,000	0
Federal Home Loan Bank of Indianapolis Notes, 5.50% Due December 28, 1998	10,000	0
Federal Home Loan Bank of Indianapolis Notes, 6.15%, Due June 24, 2003	1,300	1,300
Capital Leases	99	0
Total	$ 23,531	$ 17,432

All notes require monthly interest payments and are secured by residential real estate loans with a carrying value of $30,432,000 at December 31, 1996. The capital leases had original terms of approximately three years and require monthly payments.

NOTE 10 - EMPLOYEE BENEFIT PLANS

Information as to the Corporation's pension plan at December 31 is as follows:

	1996	1995
	(in thousands)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $1,107,000 for 1996 and $949,000 for 1995	$ 1,214	$ 1,060
Projected benefit obligation for service rendered to date	$ 1,544	$ 1,355
Plan assets at fair value (primarily money market funds and equity and fixed income investments)	(1,151)	(1,131)
Unrecognized gains (losses)	(27)	(29)
Unrecognized prior service cost	28	31
Accrued balance sheet pension liability	$ 394	$ 226

Net pension expense includes the following:

	1996	1995	1994
		(in thousands)	
Service cost for benefits earned	$ 162	$ 116	$ 119
Interest cost	105	77	66
Actual return on plan assets	(90)	(97)	(56)
Net amortization and deferrals	(9)	19	(3)
Net pension expense	$ 168	$ 115	$ 126

The following assumptions were used in calculating the net pension cost:

	1996	1995	1994
Weighted average discount rate	7.75%	7.50%	8.00%
Rate of increase in future compensation	4.50%	4.50%	4.50%
Expected long-term rate of return	8.00%	8.00%	8.00%

Under a 401(k) profit sharing plan, the Corporation contributions are based upon the rate of return on January 1 stockholders' equity. The expense recognized was $532,000, $455,000 and $370,000 in 1996, 1995 and 1994, respectively.

NOTE 11 - OTHER EXPENSE

Other expense for the years ended December 31, were as follows:

	1996	1995	1994
		(in thousands)	
Regulatory fees and FDIC insurance	$ 57	$ 616	$ 904
Data processing fees and supplies	1,098	913	769
Office supplies	641	632	519
Telephone and postage	729	616	535
Miscellaneous	2,885	2,342	2,029
Total other expense	$ 5,410	$ 5,119	$ 4,756

NOTE 12 - INCOME TAXES

Income tax expense consists of the following:

	1996	1995	1994
	(in thousands)		
Current federal income tax expense	$ 2,503	$ 2,297	$ 2,301
Deferred federal income tax expense	107	5	11
Current state income tax expense	808	734	673
Deferred state income tax expense	86	28	39
Total income tax expense	$ 3,504	$ 3,064	$ 3,024

Income tax expense (credit) included $(3,000), $114,000 and $(34,000) applicable to security transactions for 1996, 1995 and 1994, respectively. The differences between financial statement tax expense and amounts computed by applying the statutory federal income tax rate of 34% for all three years to income before income taxes are as follows:

	1996	1995	1994
	(in thousands)		
Income taxes at statutory federal rate	$ 3,382	$ 2,961	$ 2,771
Increase (decrease) in taxes resulting from:			
Tax exempt income	(540)	(433)	(338)
Nondeductible expense	140	119	73
State income tax, net of federal tax effect	590	503	471
Net operating loss, Gateway	(29)	(29)	0
Tax credits	(22)	(30)	0
Other	(17)	(27)	47
Total income tax expense	$ 3,504	$ 3,064	$ 3,024

The components of the net deferred tax asset recorded in the consolidated balance sheets at December 31 consist of the following:

	1996		1995	
	Federal	State	Federal	State
	(in thousands)			
Deferred tax assets				
Bad debts	$ 1,237	$ 395	$ 1,344	$ 445
ORE	86	18	142	35
Pension and deferred compensation liability	281	59	289	72
Deferred loan fees	0	0	83	21
Net operating loss carryforward	335	0	385	0
Other	41	17	98	23
	1,980	489	2,341	596
Deferred tax liabilities				
Depreciation	232	49	409	102
Mortgage servicing rights	58	12	0	0
State taxes	154	0	190	0
Leases	96	20	0	0
Deferred loan fees	15	3	0	0
Other	110	23	320	26
	665	107	919	128
Valuation allowance	158	0	158	0
Net deferred tax asset	$ 1,157	$ 382	$ 1,264	$ 468

For tax purposes, the acquisition of Gateway Bank (see Note 13) was structured such that its tax basis of assets and liabilities carried over to the Corporation. Therefore, Gateway Bank's net operating loss carryforward of approximately $1,339,000 is available to the Corporation. However, due to the ownership change, the Internal Revenue Service has certain limitations on the amount of net operating loss carryforward that can be utilized by the Corporation. As a result, at the date of acquisition the Corporation recorded a deferred tax asset of approximately $385,000 and an offsetting valuation reserve of approximately $158,000.

In addition to the net deferred tax assets included above, income taxes (credits) allocated to the unrealized net gain (loss) account included in equity were $259,000 and $414,000 for 1996 and 1995, respectively.

NOTE 13 - ACQUISITIONS

On July 15, 1995, the Bank acquired Gateway Bank ("Gateway"), LaGrange, Indiana. The Bank paid $1,380,000 for all the issued and outstanding shares of Gateway common stock. The transaction was accounted for using the purchase method of accounting. The acquisition added the following assets and liabilities to the Bank:

	(in thousands)
Assets	
Cash and due from banks	$ 292
Securities	10,307
Gross loans	9,073
Allowance for loan losses	(746)
Other assets	1,636
Liabilities	
Deposits	$ 18,528
Other liabilities	102

As of the date of the acquisition, the former Gateway Bank became an office of Lake City Bank. Gateway's results of operations are included in the income statement of the Corporation beginning as of the purchase date.

NOTE 14 - PARENT COMPANY STATEMENTS

The Corporation operates primarily in the banking industry, which accounts for more than 90 percent of its revenues, operating income, and assets. Presented below are parent only financial statements:

CONDENSED BALANCE SHEETS

	December 31	
	1996	1995
	(in thousands)	
ASSETS		
Deposits with Lake City Bank	$ 15	$ 25
Investment in subsidiary	42,356	36,987
Other assets	8	11
Total assets	$ 42,379	$ 37,023
LIABILITIES		
Dividends payable and other liabilities	$ 336	$ 269
STOCKHOLDERS' EQUITY	42,043	36,754
Total liabilities and stockholders' equity	$ 42,379	$ 37,023

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31		
	1996	1995	1994
	(in thousands)		
Dividends from Lake City Bank	$ 1,091	$ 928	$ 982
Interest on deposits and repurchase agreements, Lake City Bank	24	6	3
Miscellaneous income	0	10	22
Equity in undistributed income of subsidiary	5,353	4,719	4,168
Miscellaneous expense	17	14	68
INCOME BEFORE INCOME TAXES	6,451	5,649	5,107
Income tax expense (credit)	7	4	(19)
NET INCOME	$ 6,444	$ 5,645	$ 5,126

NOTE 14 - PARENT COMPANY STATEMENTS (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	1996	1995	1994
	(in thousands)		
Cash flows from operating activities			
Net income	$ 6,444	$ 5,645	$ 5,126
Adjustments to net cash from operating activities			
Equity in undistributed income of subsidiary	(5,353)	(4,719)	(4,168)
Other changes	70	3	18
Net cash from operating activities	1,161	929	976
Cash flows from investing activities	(251)	104	(137)
Cash flows from financing activities	(920)	(1,023)	(848)
Net increase (decrease) in cash and cash equivalents	(10)	10	(9)
Cash and cash equivalents at beginning of the year	25	15	24
Cash and cash equivalents at end of the year	$ 15	$ 25	$ 15

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table contains the estimated fair values and the related carrying values of the Corporation's financial instruments at December 31, 1996 and 1995. Items which are not financial instruments are not included.

	1996		1995	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents	$ 44,879	$ 44,879	$ 26,895	$ 26,895
Real estate mortgages held-for-sale	895	907	145	147
Securities available-for-sale	81,842	81,842	82,120	82,120
Securities held-to-maturity	125,274	126,373	113,888	115,328
Loans, net	376,959	376,086	322,145	322,692
Accrued income receivable	4,254	4,254	4,003	4,003
Mortgage servicing rights	205	205	0	0
Certificates of deposit	(308,543)	(309,997)	(265,038)	(266,600)
All other deposits	(188,010)	(188,010)	(166,896)	(166,896)
Securities sold under agreements to repurchase	(85,611)	(85,717)	(58,151)	(58,496)
Other short-term borrowings	(2,769)	(2,769)	(18,980)	(18,980)
Long-term debt	(23,531)	(23,466)	(17,432)	(17,505)
Accrued expenses payable	(5,033)	(5,033)	(4,481)	(4,481)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 1996 and 1995. The estimated fair value for cash, cash equivalents and accruals is considered to approximate cost. Real estate mortgages held-for-sale are based upon either the actual contracted price for those loans sold but not yet delivered, or the current FHLMC price for normal delivery of mortgages with similar coupons and maturities at year-end. The estimated fair value for securities is based on quoted market rates for individual securities or for equivalent quality, coupon and maturity securities. The estimated fair value of loans is based on estimates of the rate the Corporation would charge for similar loans at December 31, 1996 and 1995, applied for the time period until estimated repayment. The estimated fair value of mortgage servicing rights is based upon valuation methodology which considers current market conditions and historical performance of the loans being serviced. The estimated fair value for demand and savings deposits is based on their carrying value. The estimated fair value for certificates of deposit and borrowings is based on estimates of the rate the Corporation would pay on such deposits or borrowings at December 31, 1996 and 1995, applied for the time period until maturity. The estimated fair value of short-term borrowed funds is considered to approximate carrying value. The estimated fair value of other financial instruments and off-balance sheet loan commitments approximate cost and are not considered significant to this presentation.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Corporation to have disposed of such items at December 31, 1996 and 1995, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 1996 and 1995, should not necessarily be considered to apply at subsequent dates.

In addition, other assets and liabilities of the Corporation that are not defined as financial instruments are not included in the above disclosures, such as land, premises and equipment. Also, non-financial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the earnings potential of the Corporation's trust department, the trained work force, customer goodwill and similar items.

NOTE 16 - COMMITMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES

During the normal course of business, the Corporation becomes a party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These financial instruments include commitments to make loans and open-ended revolving lines of credit. Amounts as of December 31, 1996 and 1995, were as follows:

	1996		1995	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commercial loan lines of credit	$ 13,063	$ 98,155	$ 2,558	$ 100,033
Commercial loan standby letters of credit	0	7,865	0	4,608
Real estate mortgage loans	941	532	699	199
Real estate construction mortgage loans	0	1,997	0	963
Credit card open-ended revolving lines	4,947	0	4,153	0
Home equity mortgage open-ended revolving lines	0	16,743	0	13,955
Consumer loan open-ended revolving lines	0	2,835	0	2,556
Total	$ 18,951	$ 128,127	$ 7,410	$ 122,314

At December 31, 1996 and 1995, the range of interest rates for commercial loan commitments with a fixed rate was 7.86% to 12.00% and 6.99% to 12.00%, respectively. The range of interest rates for commercial loan commitments with variable rates was 7.75% to 12.25% and 6.84% to 12.50% at December 31, 1996 and 1995, respectively. The index on variable rate commercial loan commitments is principally the Bank's base rate.

Commitments, excluding open-ended revolving lines, generally have fixed expiration dates of one year or less. Credit card open-ended revolving lines of credit are normally reviewed bi-annually and other personal lines of credit are normally reviewed annually. Since many commitments expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Corporation follows the same credit policy (including requiring collateral, if deemed appropriate) to make such commitments as is followed for those loans that are recorded in its financial statements.

The Corporation's exposure to credit losses in the event of nonperformance is represented by the contractual amount of the commitments. Management does not expect any losses as a result of these commitments.

There are presently no lawsuits which, in the opinion of management and legal counsel, would have a material affect on the financial statements.

NOTE 17 - REGULATORY MATTERS

The Corporation is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 1996 and 1995, the Corporation meets all capital adequacy requirements to which it is subject.

As of December 31, 1996, the most recent notification from the federal regulators categorized the Corporation as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Corporation must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Corporation's category.

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(amounts in thousands)			
As of December 31, 1996						
Total Capital (to Risk Weighted Assets)	$ 46,860	11.19%	>=$ 33,501	>= 8.00%	>=$ 41,876	>= 10.00%
Tier I Capital (to Risk Weighted Assets)	$ 41,624	9.94%	>=$ 16,750	>= 4.00%	>=$ 25,125	>= 6.00%
Tier I Capital (to Average Assets)	$ 41,624	6.29%	>=$ 26,469	>= 4.00%	>=$ 33,087	>= 5.00%
As of December 31, 1995						
Total Capital (to Risk Weighted Assets)	$ 40,709	11.38%	>=$ 28,61	>= 8.00%	>=$ 35,772	>= 10.00%
Tier I Capital (to Risk Weighted Assets)	$ 36,224	10.13%	>=$ 14,30	>= 4.00%	>=$ 21,455	>= 6.00%

Tier I Capital (to Average Assets)	$	36,224	6.31%	>=$	22,96	>=	4.00% >=$	28,703 >=	5.00%

REPORT OF INDEPENDENT AUDITORS

Stockholders and Board of Directors
Lakeland Financial Corporation
Warsaw, Indiana

We have audited the accompanying consolidated balance sheets of Lakeland Financial Corporation and subsidiary as of December 31, 1996 and 1995, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 1996, 1995 and 1994. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lakeland Financial Corporation and subsidiary as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years ended December 31, 1996, 1995 and 1994, in conformity with generally accepted accounting principles.

As discussed in Note 1, the Corporation adopted new accounting guidance for impaired loans in 1995 and new accounting guidance for mortgage servicing rights in 1996.

CROWE, CHIZEK AND COMPANY LLP

South Bend, Indiana
January 16, 1997

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation of the Corporation's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Corporation's financial position and results of operations and were prepared in conformity with generally accepted accounting principles. Management also has included in the Corporation's financial statements, amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The Corporation maintains a system of internal controls designed to provide reasonable assurance that all assets are safeguarded, financial records are reliable for preparing Consolidated Financial Statements and the Corporation complies with laws and regulations relating to safety and soundness which are designated by the FDIC and other appropriate federal banking agencies. The selection and training of qualified personnel and the establishment and communication of accounting and administrative policies and procedures are elements of this control system. The effectiveness of the internal control system is monitored by a program of internal audit and by independent certified public accountants ('independent auditors'). Management recognizes that the cost of a system of internal controls should not exceed the benefits derived and that there are inherent limitations to be considered in the potential effectiveness of any system. Management believes the Corporation's system provides the appropriate balance between costs of controls and the related benefits.

The independent auditors have audited the Corporation's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of the reported operating results and financial position. The Board of Directors of the Corporation has an Audit Review Committee composed of five non-management Directors. The Committee meets periodically with the internal auditors and the independent auditors.

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

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FINANCIAL CONDITION

Liquidity

The Corporation manages its primary liquidity position to provide funding at the lowest possible cost, for anticipated loan demand and/or deposit run-off that occurs in the regular course of business. Such sources of liquidity are: Federal fund lines with correspondent banks, advances from the Federal Home Loan Bank, repurchase agreements with local customers and cash flow from the securities portfolio. This cash flow from the securities portfolio could total approximately $49.6 million in 1997, given current prepayment assumptions. Additionally, continuous growth into new markets in northern Indiana has diversified the retail deposit base, reducing volatility that might occur in one geographical location.

The Corporation manages a secondary liquidity position to provide funding in the event of unanticipated loan demand and/or deposit run-off. Management has designated approximately 39.3 percent of its investment portfolio as available-for-sale (AFS). This designation provides the liquidity to fund abnormal loan demand, or to manage the loss of deposits. The Corporation's securities are all very high quality and easily marketable, with 87.8 percent either U.S. Treasuries, Federal agency securities or mortgage-backed securities directly or indirectly guaranteed by the Federal government.

The following is a brief description of the sources and uses of funds for the indicated periods:

During the year ended December 31, 1996, there was a net increase of $18.0 million in cash and cash equivalents. The major uses of cash during the period included the funding of a $54.9 million increase in loans, the purchase of securities totaling $34.7 million and the purchase of new premises and equipment of $3.6 million. Major sources of funds were: a net increase in cash from operating activities of $7.2 million, maturities and calls of securities totaling $22.9 million, an increase in deposits of $64.6 million and a $17.3 million increase in total borrowings.

During the year ended December 31, 1995, there was a net increase of 2.7 million in cash and cash equivalents. The major uses of cash during the period included the funding of a $39.2 million increase in loans, the purchase of securities totaling $42.9 million and the purchase of new premises and equipment of $3.7 million. Major sources of funds were: a net increase in cash from operating activities of $8.1 million, maturities and sales of securities totaling $18.9 million, an increase in deposits of $35.2 million and a $28.8 million increase in total borrowings.

During the year ended December 31, 1994, there was a net increase of $11.3 million in cash and cash equivalents. The major uses of cash during the period included the funding of a $27.7 million increase in loans and the purchase of securities totaling $28.5 million. Major sources of funds were: a net increase in cash from operating activities of $10.3 million, maturing securities of $15.3 million, an increase in deposits of $26.7 million and an $18.5 million increase in total borrowings.

Asset/Liability Management (ALCO) and Securities

The Board of Directors annually reviews and approves the ALCO policy used to manage interest rate risk. This policy sets guidelines for balance sheet structure that protects the Corporation from excessive net income volatility that could result from changing interest rates. The Corporation uses a GAP report, which details the relative mismatch of asset and liability cash flows occurring in specified time horizons, and a computer program to stress test the balance sheet under a wide variety of interest rate scenarios. This model quantifies the impact on income of such things as: changes in customer preference for products, basis risk between the assets and the funds supporting them and the risk inherent in different yield curves. The ALCO committee reviews these possible outcomes and makes loan, investment and deposit decisions that maintain reasonable balance sheet structure in light of potential interest rate movements. After the committee has specified a maximum risk tolerance for dollar margin volatility, the committee develops guidelines for the GAP ratios. As indicated in Table 1 - Repricing Opportunities, the Corporation's cumulative GAP ratio at December 31, 1996, for the next 12 months is a negative 17.6 percent of total assets. This ratio indicates that the interest margin could be slightly lower if interest rates rise, as compared to flat or falling interest rate environments. The computer model produces a slightly different result, and highlights one of the major problems with GAP analysis. While GAP may provide a basic guide to rate risk exposure in certain rate environments, it cannot effectively provide a dollar margin impact since it ignores the rates on maturing assets and liabilities, the different indices used to price products and the changes in customer preference that occur whenever interest rates change. Factoring all of these things into the computer simulation, the Corporation is exposed to falling rates. That is, the interest margin could be slightly lower if rates fall. The degree of this exposure is within policy limits.

The Corporation's investment portfolios consist of U.S. Treasuries, agencies, mortgage-backed securities, municipal bonds and corporates. During 1996, purchases have been primarily U.S. Treasuries, mortgage-backed ecurities and municipal bonds. At December 31, 1996, the Corporation's investment in mortgage-backed securities comprised approximately 63 percent of total securities and consisted of CMO's and mortgage pools issued by GNMA, FNMA and FHLMC. As such, these securities are backed directly or indirectly by the Federal government. All mortgage securities are purchased to conform to the FFIEC high risk standards which prohibit the purchase of securities that have excessive price, prepayment, extension and original life risk characteristics. The Corporation uses Bloomberg analytics to evaluate and monitor all purchases. At December 31, 1996, the mortgage securities in the AFS portfolio had a one and one-half year average life, with approximately 6 percent price depreciation should rates move up 300 basis points and approximately 4 percent price appreciation should rates move down 300 basis points. The mortgage securities in the HTM portfolio had a three year average life and the potential for approximately 9 percent price depreciation should rates increase 300 basis points and approximately 7 percent price appreciation should rates move down 300 basis points. As of December 31, 1996, all mortgage securities continue to be in compliance with FFIEC guidelines, and are performing in a manner consistent with management's original expectations.

Capital Management

The Corporation believes that a strong capital position is vital to long-term earnings and expansion. Currently the Corporation maintains capital levels in excess of "well-capitalized" levels as defined by the FDIC. Bank regulatory agencies exclude the market value adjustment created by SFAS No. 115 (AFS adjustment) from capital adequacy calculations. Therefore, excluding this adjustment from the calculation, the Corporation attained tier I leverage capital, tier I risk based capital and tier II risk based capital ratios of 6.3 percent, 9.9 percent and 11.2 percent, respectively at December 31, 1996. All three ratios exceed the "well-capitalized" minimums of 5.0 percent, 6.0 percent and 10.0 percent, respectively.

The ability to maintain these ratios at these levels is a function of net income growth and a prudent dividend policy. Total stockholders' equity increased by 14.4 percent, to $42,043,000 as of December 31, 1996, from $36,754,000 as of December 31, 1995. Total stockholders' equity increased by 40.7 percent or $12,154,000 from $29,889,000 as of December 31, 1994. The 1996 growth resulted from the retention of net income of $6,444,000, minus cash dividends declared of $1,335,000 less the change in the AFS adjustment of $235,000, net of tax, plus $415,000 from issuing shares of common stock. The AFS adjustment reflects an 82 basis point increase in three to five year U. S. Treasury rates during 1996. Since the securities portfolio is primarily fixed rate, a negative equity adjustment should occur whenever interest rates increase. Management has factored this into the determination of the size of the AFS portfolio, to assure that stockholders' equity is adequate under various scenarios. The 1995 growth of $6,865,000 resulted from the retention of net income of $5,645,000, minus cash dividends declared of $1,066,000, plus the AFS adjustment of $2,286,000, net of tax. This 1996 AFS adjustment reflected a 250 basis point decrease in three to five year U. S. Treasury rates during 1995.

Management is not aware of any known trends, events or uncertainties that would have a material effect on the Corporation's liquidity, capital and results of operations. Nor is management aware of any regulatory recommendations that, if implemented, would have such an effect.

Allowance for Credit Risk

At December 31, 1996, the allowance for loan losses was $5,306,000 or 1.39 percent of total loans outstanding, compared with $5,472,000 or 1.67 percent of total loans outstanding at December 31, 1995. The process of identifying credit losses that may occur based upon current circumstances is subjective. Therefore, the Corporation maintains a general allowance to cover all credit losses within the entire portfolio. The methodology management uses to determine the adequacy of the loan loss reserve is as follows:

1. Management reviews the larger individual loans (primarily in the commercial loan portfolio) for unfavorable collectibility factors (including impairment) and assesses the requirement for specific reserves on such credits. For those loans not subject to specific reviews, management reviews previous loan loss experience to establish historical ratios and trends in charge-offs by loan category. The ratios of net charge-offs to particular types of loans enables management to establish charge-offs in future periods by loan category and thereby establish appropriate reserves for loans not specifically reviewed.

2. Management reviews the current and anticipated economic conditions of its lending market to determine the effects on future loan charge-offs by loan category, in addition to the effects on the loan portfolio as a whole.

3. Management reviews delinquent loan reports to determine risk of future charge-offs. High delinquencies are generally indicative of an increase in future loan charge-offs.

Given this methodology for determining the adequacy of the loan loss reserve, the provision for loan losses was substantially lower in 1996 and 1995 as compared to prior periods. This reduction reflects the trend in past due accruing loans (90 days or more) which are currently at historically low levels. It also reflects the immaterial level of nonaccrual loans over the same period. These trends in non-performing loans reflect both general economic conditions that have promoted growth and expansion in the Corporation's market area, and a credit risk management strategy that promotes diversification.

At December 31, 1996, 62.0 percent of the Corporation's allowance for loan losses was classified as unallocated. To a large extent, this reflects the growth in total loans over the last three years of $122 million, or about 46.9 percent, and the concentration of this loan growth in the commercial loan portfolio. With this type of commercial loan growth, management believes that it is prudent to continue to provide for loan losses, due to the inherent risk associated with commercial loans.

Inflation

For a financial institution, the effects of price changes and inflation can vary substantially. Inflation affects the growth of total assets, but it is difficult to assess its impact since neither the timing nor the magnitude of the changes in the consumer price index (CPI) coincides with changes in interest rates. The price of one or more of the important components of the CPI may fluctuate considerably and thereby influence the overall CPI without having a corresponding affect on interest rates or upon the cost of those goods and services normally purchased by the Corporation. In years of high inflation and high interest rates, intermediate and long-term interest rates tend to increase, thereby adversely impacting the market values of investment securities, mortgage loans and other long-term fixed rate loans. In addition, higher short-term interest rates caused by inflation tend to increase the cost of funds. In other years, the reverse situation may occur.

Growth and Expansion

The assets of the Corporation increased 15.5 percent, or $87,972,000, to $656,551,000 as of December 31, 1996, from $568,579,000 as of December 31, 1995. Assets at December 31, 1995, increased 14.4 percent, or $71,616,000, from $496,963,000 as of December 31, 1994. The Corporation has been pursuing expansion into contiguous markets since 1990. Most recently, the Corporation opened two additional offices and one free-standing ATM during 1996. Plans call for additional expansion in Elkhart and St. Joseph counties in 1997. Although growth continues to be strong in the traditional markets served by the Corporation, much of the growth experienced in 1996 was in the new markets served by the Corporation. The Corporation's market area now includes: Elkhart, Fulton, Kosciusko, LaGrange, Marshall, Noble and Whitley counties. As in the past, the Corporation expects to continue to serve its market by adding new products, offices and ATM's in areas where the demographic trends dictate. This activity will contribute to net income in future years.

Changes in Accounting Methods

Effective January 1, 1995, the Corporation adopted SFAS No. 114, and SFAS No. 118, Accounting by Creditors for Impairment of a Loan. The effect on the Corporation of the adoption of this accounting standard was not material.

On January 1, 1996, the Corporation adopted SFAS No. 122 "Accounting for Mortgage Servicing Rights", which requires recognition of an asset when servicing rights are retained on in-house originated loans that are sold. Adopting SFAS No. 122 did not have a significant impact on the financial condition and operations for 1996. The impact in subsequent years is difficult to predict.

RESULTS OF OPERATIONS

1996 vs 1995

Continued growth and expansion have brought Corporation assets and earnings to record levels again in 1996. Total assets of the Corporation were $656,551,000 at December 31, 1996, an increase of $87,972,000 or 15.5 percent over the assets at December 31, 1995. Total loans at December 31, 1996 increased to $382,265,000. That is an increase of $54,648,000 or 16.7 percent over the balance at December 31, 1995. Total deposits increased to $496,553,000 at December 31, 1996, an increase of $64,619,000 or 15.1 percent while core funding, deposits plus securities sold under agreements to repurchase, increased $92,079,000 or 18.8 percent to $582,164,000. On an average daily basis, gross earning assets increased 12.6 percent and deposits plus purchased funds increased 12.5 percent.

For 1996, total interest income was $45,941,000 which is an increase of $3,997,000 or 9.5 percent from the prior year. This is a result of the increased earning assets offset by a 24 basis point decrease in the earning asset yield. The decrease in the earning asset yield reflects the 56 basis point reduction in the average prime rate for 1996, as compared to 1995 and its effect on the commercial loan portfolio yield.

Nonearning assets of the Corporation include nonaccrual loans and investments, other real estate, and repossessions. These nonearning assets were $1,097,000, $1,207,000 and $815,000 as of December 31, 1996, 1995 and 1994, respectively. Nonaccrual loans totaled $384,000, $532,000 and $18,000, respectively at the end of the years 1996, 1995 and 1994.

Interest expense was $23,737,000 for 1996, an increase of $2,095,000 or 9.7 percent over the amount for 1995. This reflects a $62,299,000 increase in the average daily balance of deposits and purchased funds offset by an 11 basis point decrease in the average rate paid on these funds. The largest increase was in the average daily balance of time deposits which increased $43,195,000 for 1996, as compared to 1995.

Net interest income for 1996 was $22,204,000 as compared to $20,302,000 for 1995, an increase of $1,902,000 or 9.4 percent. As a percentage of average earning assets it was 4.06 percent for 1996, a 12 basis point decrease from the percentage for 1995. This reflects the decrease in the average rate paid on deposits and purchased funds being 13 basis points less than the decrease in the average yield on earning assets and the continued shift of deposits to the higher cost time deposits.

As indicated in the Notes to Consolidated Financial Statements and the discussion of financial condition, management maintains the allowance for loan losses at an appropriate level given many different factors. Management believes the December 31, 1996 allowance of $5,306,000 is adequate to absorb all potential risk applicable to the classification of loans as loss, doubtful, substandard or special mention. This allowance does not represent or result from trends that will materially adversely impact future operating results, liquidity, or capital resources. Net interest income after the provision for loan losses was $22,084,000 for 1996, an increase of $1,902,000 or 9.4 percent over the amount for 1995.

Noninterest income for 1996 increased $1,028,000 over the amount for 1995, totaling $5,799,000 for the year. All major components of noninterest income increased except for security gains and losses. Trust income increased 24.3 percent from the amount for 1995 to $881,000 for 1996. Service charges on deposit accounts increased 24.2 percent to $2,809,000 for 1996. This increase resulted from the continued acceptance of the Corporation's individual deposit accounts paying fees and adjustments to the schedule of deposit fees. The $380,000 increase in other noninterest income resulted from increases in a variety of income sources including discount brokerage fees, wire transfer fees, and gains on sales of other real estate. The increase in gains on sales of real estate mortgages held-for-sale are a result of continued sales of mortgages to the secondary market and the adoption of SFAS No. 122. These gains were $412,000 for 1996 as compared to $159,000 for 1995, an increase of $253,000. Approximately $205,000 of these gains were a result of adopting SFAS No. 122. The small security losses recorded in 1996 were primarily the result of several partial calls. During 1995, sales of securities available-for-sale and calls of securities held-to-maturity accounted for the gain of $315,000.

Noninterest expense was $17,935,000 for the year ended December 31, 1996, an increase of $1,691,000 or 10.4 percent over the amount for 1995. All components of noninterest expense increased with the largest increase being salaries and employee benefits which increased $1, 049,000 or 12.3 percent. The increase in salaries and employee benefits reflects the normal salary increases along with the increases in staff related to the 5 new offices opened during the last 18 months. The number of full-time equivalent employees increased to 320 at December 31, 1996, as compared to 292 at December 31, 1995. The $110,000 increase in net occupancy expense also reflect the additional offices. The increase of $241,000 in equipment costs reflects both the additional offices and investments necessary to stay current with technology. As indicated in the Notes to Consolidated Financial Statements, all components of other expense increased except for the regulatory fees and FDIC insurance. The decrease in regulatory fees and FDIC insurance is primarily due to the reduced premium rates on FDIC insurance for 1996 as compared to 1995.

As a result of all these factors, income before income tax expense increased $1,239,000 or 14.2 percent to $9,948,000 for 1996, as compared to $8,709,000 for 1995. Income tax expense was $3,504,000 and $3,064,000 for 1996 and 1995, respectively. For both 1996 and 1995, the income tax expense as a percentage of income before tax remained at 35.2 percent. Net income increased to $6,444,000 for 1996, an increase of $799,000 or 14.2 percent over the net income of $5,645,000 for 1995. Net income per share for 1996 was $2.22 as compared to $1.96 for 1995. Net income of $6,444,000 represents a 17.9 percent return on January 1, 1996 stockholder's equity (excluding the equity adjustment related to SFAS No. 115) and a 1.07 percent return on average daily assets.

1995 vs 1994

Corporation assets and earnings were at record levels in 1995. Total assets were at $568,579,000 at December 31, 1995, an increase of $71,616,000 or 14.4 percent over the assets at December 31, 1994. Loans increased 13.8 percent, or $39,661,000, to $327,617,000 at year-end 1995. Total deposits increased 8.9 percent, or $35,194,000, to $431,934,000 at December 31, 1995. Core funding, deposits plus securities sold under agreement to repurchase, increased 11.8 percent, or $51,595,000, to $490,085,000. Net income totaled $5,645,000, exceeding 1994 by 10.1 percent. On an average daily basis, gross earning assets increased by 14.8 percent and total deposits and purchased funds increased by 14.3 percent. The Gateway Bank office added in July, 1995 accounted for approximately one-third of this average daily earning asset growth.

Total interest income increased 25.0 percent, or $8,424,000 to $42,079,000 for the year ended December 31, 1995. This increase was a result of the increase in daily average earning assets and a 97 basis point increase in the overall tax equivalent yield on earning assets as compared to the 1994 overall tax equivalent yield. The increase in the tax equivalent yield on earning assets is reflective of the 168 basis point increase in the average prime rate during 1995, and the effect this prime rate increase had on the commercial loan portfolio yield.

Nonearning assets of the Corporation include nonaccrual loans and investments, other real estate, and repossessions. These nonearning assets amounted to $1,207,000, $815,000 and $2,379,000 as of December 31, 1995, 1994 and 1993, respectively. Nonaccrual loans totaled $532,000, $18,000 and $0, respectively at the end of the years 1995, 1994 and 1993. Four mortgage loans acquired from Gateway account for the majority of the amount in nonaccrual loans for 1995.

Interest expense for 1995 was $21,642,000. This is an increase of $6,755,000, or 45.4 percent, over the interest expense for 1994. The increase in interest expense is attributable to the continued growth in time deposit balances and rising interest rates. Average daily balances of time deposits increased 24.1 percent over the prior year average daily balances and the average rate paid on time deposits increased 161 basis points.

Net interest income increased $1,669,000 or 8.9 percent, to $20,437,000 in 1995, from $18,768,000 in 1994. Net interest income as a percentage of earning assets was 4.18 percent for 1995. This is a decrease of 23 basis points from the 4.41 percentage for 1994. This decrease resulted from the increase in the rates paid on deposits and purchased funds being 25 basis points higher than the increase in the rates for earning assets. The increase in rates paid on deposits and purchased funds reflected both the effects of competition and the shift of balances from savings and money market funds to higher cost time deposits.

As indicated in the Notes to Consolidated Financial Statements and the discussion of financial condition, management maintains the allowance for loan losses at an appropriate level given many different factors. The December 31, 1995, allowance of $5,472,000 was believed by management to be adequate to absorb all potential risk applicable to the classification of loans as loss, doubtful, substandard or special mention. Net interest income after provision for loan losses increased $2,344,000, or 13.0 percent, to $20,317,000 in 1995, from $17,973,000 in 1994.

Trust income and service charges on deposit accounts, two major components of noninterest income, increased 10.6 percent, or $284,000 in 1995 to $2,971,000 in 1995, from $2,687,000 in 1994. Trust income increased to $709,000 for 1995, as compared to $609,000 for 1994, an increase of 16.4

percent. Service charges on deposit accounts increased 8.9 percent to $2,262,000 in 1995. This increase is reflective of the continued acceptance of the Corporation's individual deposit accounts paying fees. Other income decreased by $221,000 when compared to 1994. Other income in 1994 included a one-time event relating to the reversal of certain other real estate valuation allowances that contributed $404,000 to other income. Without that one-time event in 1994, the other income for 1995 would have increased $183,000 over the amount for 1994.

The Corporation continued its program of originating mortgages for sale on the secondary market. Loans originated for sale in 1995 were $10,878,000 as compared to $9,426,000 originated for sale in 1994. Gains on the sales of these loans totaled $159,000 a decrease of $18,000 from the gains recorded in 1994.

The ALCO committee reviews the portfolio monthly and makes investment decisions based upon the projected balance sheet needs. During 1995, there were sales of securities available-for-sale which resulted in net gains of $331,000 and there were calls of securities held-to-maturity which resulted in losses of $16,000. The net of these activities resulted in security gains of $315,000 for 1995 as compared to net security losses of $7,000 in 1994. The small security losses in 1994 were the result of several partial calls on zero coupon bonds.

The result of the changes in all components of noninterest income was an increase in total noninterest income of $367,000, or 8.6 percent, over the amounts recorded for 1994.

Salaries and employee benefit costs for 1995 increased $1,243,000, or 17.1 percent, to $8,521,000. This increase was attributable to a 5.0 percent increase in full-time equivalent employees (FTE) in 1995, to 292, along with normal salary increases. The increase in FTE was a result of the opening of three new offices and the acquisition of Gateway Bank during 1995. Additionally, the increase in salaries and employee benefits reflected the increased cost of fringe benefit and indirect payroll programs which are tied to Corporate performance.

Net occupancy and equipment costs increased to $2,604,000 in 1995, from $2,058,000 in 1994, an increase of $546,000 or 26.5 percent. This increase was also due to the new offices added during 1995 as well as having the expenses for the full year for the two offices opened in the fourth quarter of 1994. This increase was also a result of investments in the equipment needed to stay current with technology.

Other expense increased 7.6 percent, or $363,000, to $5,119,000 for 1995. As indicated in the Notes to Consolidated Financial Statements, all components of other expense increased from 1994 to 1995 except for Regulatory Fees and FDIC Insurance. During 1995, the FDIC announced that the Bank Insurance Fund reached its capitalization target in May. As a result, the FDIC refunded excess premiums that banks paid from June to September and reduced the FDIC premium rates. This refund and the reduction in FDIC premiums resulted in the $288,000 decrease in Regulatory Fees and FDIC Insurance for 1995 as compared to 1994.

As a result of all these factors, income before income tax expense increased $559,000, or 6.9 percent, to $8,709,000 from the $8,150,000 for 1994. Income tax expense was $3,064,000 and $3,024,000 in 1995 and 1994, respectively, which represent 35.2 percent and 37.1 percent of income before taxes. The reduction in the average tax rate is due to a higher level of tax exempt income, the net operating loss carryforward related to the Gateway acquisition and an increase in Federal and State tax credits. Net income increased to $5,645,000 for 1995 from $5,126,000 for 1994, an increase of $519,000, or 10.1 percent. Net income per share was $3.92 for 1995, as compared to $3.56 for 1994. Net income of $5,645,000 represents a 17.9 percent return on January 1, 1995, stockholders' equity (excluding the equity adjustment related to SFAS No. 115), and a 1.05 percent return on average daily assets.

TABLE 1 - REPRICING OPPORTUNITIES

The table below illustrates the funding gaps for selected maturity periods as of December 31, 1996, for Lake City Bank only. Repricing opportunities for fixed rate loans and mortgage-backed securities are based upon anticipated prepayment speeds. Demand deposit accounts and savings accounts are classified as having maturities beyond four years.

	Repricing or Maturing Within		
	6 Months	7-12 Months	1-4 Years
		(in thousands)	
Earning Assets			
Loans	$ 228,759	$ 29,007	$ 93,006
Securities	25,996	9,921	119,924
Short-term investments	3,491	0	198
Total	258,246	38,928	213,128
Deposits and Purchased Funds			
Transaction accounts	66,601	0	0
Time deposits	186,019	58,171	58,446
Short-term borrowings	70,582	12,023	5,775
Long-term borrowings	8,135	0	14,096
Total	331,337	70,194	78,317

Interest sensitivity GAP	$ (73,091)	$ (31,266)	$ 134,811
Cumulative interest sensitivity GAP	$ (73,091)	$ (104,357)	$ 30,454
Cumulative GAP as percent of earning assets	(12.3)%	(17.6)%	5.1%

LAKE CITY BANK OFFICERS

R. Douglas Grant	President
Paul S. Siebenmorgen	Executive Vice President
Walter L. Weldy	Executive Vice President

Commercial Services

Charles D. Smith	Senior Vice President
David A. Bickel	Vice President
James R. Cowan	Vice President
Michael E. Gavin	Vice President
William D. Leedy	Vice President
J. Randall Leininger	Vice President
H.A. "Rocky" Meyer	Vice President
Willard N. Schieler	Vice President
Thomas G. Stark	Vice President
James C. Stout	Vice President
Randal U. Vutech	Vice President
Edward D. Jarrett	Assistant Vice President
J. Chad Stoltzfus	Assistant Vice President
Chad D. Broyette	Commercial Banking Officer
Brent E. Hoffman	Commercial Banking Officer
Michael A. Zimmerman	Commercial Banking Officer

Trust & Investments

Dennis E. Cultice	Senior Vice President
Coral G. Amspaugh	Vice President
Jeanine D. Knowles	Vice President
Max A. Mock	Vice President
Anne M. Bailey	Assistant Vice President
Jill A. Hester	Assistant Vice President
Connie S. Miller	Trust Officer
Shelley A. Moore	Trust Operations Officer

Marketing, Human Resources and Facilities

D. Jean Northenor	
Gregory D. Lawrence	Vice President
Cathy L. Teghtmeyer	Vice President
Paul S. Purvis	Assistant Vice President
Bettie S. Moore	Assistant Human Resources Officer
John W. Gove	Facilities Manager

Retail Services

Kevin L. Deardorff	Senior Vice President
Craig R. Atz	Vice President
Dale L. Cramer	Vice President
Thomas P. Frantz	Vice President
Janet K. Anderson	Assistant Vice President
Barry A. Bailey	Assistant Vice President
Dennis E. Dolby	Assistant Vice President
Craig A. Haecker	Assistant Vice President
W. Randy Yoder	Assistant Vice President
Glenn A. Goudey	Senior Mtg. Underwriter
Rick A. Spicer	Mortgage Underwriter
April J. Gayton	Mortgage Banking Officer
Linda A. Rodriguez	Mtg. Loan Originator
Melanie R. Shipley	Retail Banking Officer
Lisa A. Stookey	Retail Banking Officer

Financial & Operations

Terry M. White	Senior Vice President
James J. Nowak	Vice President and Controller
Teresa A. Bartman	Assistant Vice President and Assistant Controller
Dennis L. Huff	Vice President and M.I.S.
Judy K. Harvey	Vice President
Lisa M. Bicknese	Assistant Vice President
Vicki D. Martin	Assistant Vice President
Rebecca M. Siery	Assistant Vice President
Lorretta J. Burnworth	Operations Officer
Jean A. Ciriello	Operations Officer
Joanie L. Foreman	Operations Officer
William L. Hilliard	Operations Officer
Jan R. Martin	Operations Officer
Elizabeth A. Neves	Operations Officer
Linda A. Owens	Operations Officer
Angela K. Ritchey	Operations Officer
Linda L. Swoverland	Operations Officer

Audit

Betty L. McHenry	Senior Vice President and Auditor
Ryan B. Weaver	Assistant Vice President
Teah D. Wicks	Assistant Auditor

Office Administration

Walter L. Weldy	Executive Vice President
E. Ray Younce	Senior Vice President
Peggy A. Guyas	Vice President
Jane E. Miller	Vice President
Timothy L. Sutton	Vice President
Jeannine P. Cooley	Assistant Vice President
Ruth A. Hutcherson	Assistant Vice President
Nancy L. Hofer	Retail Banking Officer
Sarah Miller-Bontrager	Retail Banking Officer

Offices

Akron	Jane Murphy	Assistant Vice President
Argos	Michael D. Burroughs	Vice President
Bremen	Matthew K. Bixel	Vice President
Columbia City	Lisa A. Hockemeyer	Assistant Vice President
Concord	Jeri L. Yoder	Assistant Vice President
Cromwell	Jerry L. Stoner	Office Manager
Elkhart	Rosalie M. Smith	Vice President
	Debra L. Griggs	Assistant Office Manager
Elkhart East	Mervin "Bud" Hammon	Vice President
Elkhart Hubbard Hill	Thomas Walker	Assistant Vice President
Elkhart Northwest	Kathleen Dougherty	Office Manager
Goshen Downtown	Jane Greene	Assistant Office Manager
Goshen South	Clarence J. "CJ" Yoder	Vice President
Kendallville	Duane Smith	Vice President
LaGrange	Shannon Schrock	Office Manager
Ligonier	Jerry L. Stoner	Office Manager
Mentone	Karen A. Francis	Assistant Vice President
Middlebury	Jerry S. Troyer	Vice President
Milford	Jack A. Heeter	Assistant Vice President
Nappanee	Larry L. Penrod	Vice President
North Webster	Jeanne G. Bowen	Vice President
Pierceton	Pamela F. Messmore	Office Manager
Roann	Merrill Templin	Assistant Vice President
Rochester	Gail D. Law	Assistant Vice President
Shipshewana	John R. Munsell	Vice President
Silver Lake	Deborah A. Lotz	Assistant Vice President
Syracuse	Donna J. Beck	Assistant Vice President
Wabash North	T.F. "Bob" Fuller	Vice President
Wabash South	Jody A. Slacian	Office Manager
Warsaw Downtown	Traci Dahlinger	Office Manager
Warsaw East	Pamela F. Messmore	Office Manager
Warsaw West	Linda M. Riley	Assistant Office Manager
Winona Lake	Allan L. Disbro	Vice President

This schedule contains summary financial information extracted from the 1996 report to shareholders and the 1996 Form 10-K and is qualified in its entirety by reference to such financial statements.

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YEAR
DEC-31-1996
DEC-31-1996
41,190
247
3,442
0
81,842
125,274
126,373
383,160
5,306
656,551
496,553
88,380
6,044
23,531
0
0
1,448
40,595
656,551
32,970
12,726
245
45,941
18,411
23,737
22,204
120
(9)
17,935
9,948
6,444
0
0
6,444
2.22
2.22
3.96
384
216
1,284
0
5,472
368
82
5,306
2,017
0
3,289