CHANGE IN CONTROL AGREEMENT

THIS CHANGE IN CONTROL AGREEMENT (this "Agreement") is made as of the ______ day of ________________________, 2000, (the "Effective Date") by and between LAKELAND FINANCIAL CORPORATION, an Indiana corporation, (the "Company") and __________________________ (the "Executive").

RECITALS

A. The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to assure that the Company and its Affiliates will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change in Control (as defined below) of the Company.

B. The Executive is currently serving as an Executive of the Company or one of its Affiliates.

C. The Company desires to continue to employ the Executive as an Executive of the Company or one of its Affiliates and the Executive is willing to continue such employment.

D. The Company recognizes that circumstances may arise in which a change of control of the Company through acquisition or otherwise may occur thereby causing uncertainty of employment without regard to the competence or past contributions of the Executive, which uncertainty may result in the loss of valuable services of the Executive, and the Company and the Executive wish to provide reasonable security to the Executive against changes in the employment relationship in the event of any such change in control.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements hereinafter contained, it is covenanted and agreed by and between the parties hereto as follows:

1. Payment of Severance Amount. If the Executive's employment by the Company, or any Affiliate or successor of the Company, is terminated by either the Company or the Executive during the time periods set forth in subparagraphs (a) and (b) below, then the Company shall pay the Executive an amount equal to the Change in Control Severance Amount, payable in one (1) lump sum within fifteen (15) days after the Executive's termination of employment:

(a) termination by the Company, or any Affiliate or successor of the Company, without Cause, within either twelve (12) months prior to a Change in Control or twelve (12) months immediately following a Change in Control; or

(b) termination by the Executive, for any reason, within twelve (12) months immediately following a Change in Control.

2. Definitions. As used throughout this Agreement, all of the terms defined in this paragraph 2 shall have the meanings given below.

A. The "Act" shall mean the Securities Exchange Act of 1934, as amended.

B. An "Affiliate" shall mean any entity which owns or controls, is owned by or is under common ownership or control with, the Company.

C. A "Change in Control" shall mean a Change in Control of a nature such that (1) it would be required to be reported by a person or entity subject to the reporting requirements of Section 14(a) of the Act in response to Schedule 14A of Regulation 14A, or successor provisions thereto, as in effect on the date hereof, (2) a "person" or "group" (as those terms are used in Sections 13(d) and 14(d) of the Act), is or becomes the "beneficial owner" (as defined in Rule 13d-3 issued under the Act), directly or indirectly, of securities of the Company, representing in excess of thirty percent (30%) of the voting securities of the Company then outstanding, followed by the election by said person or group of one or more representatives to the Board; (3) a person or group, as hereinabove defined, is or becomes the beneficial owner, directly or indirectly, of securities of the Company, representing in excess of fifty percent (50%) of the voting securities of the Company then outstanding, whether or not followed by the election by said person or group of one or more representatives to the Board; or (4) any other event, including but not limited to those set forth in paragraphs (1) through (3) above, which shall have the effect of placing control of the business and affairs of the Company in a person or group as hereinabove defined, other than or different from the present shareholders of the Company.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because fifty-one percent (51%) or more of the combined voting power of the then outstanding securities of the Company are acquired by: (1) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of the Company or its Affiliates; or (2) any corporation which, immediately prior to such acquisition, is owned directly or indirectly by the stockholders in the same proportion as their ownership of stock immediately prior to such acquisition.

D. "Change in Control Severance Amount" shall mean the amount equal to two (2) times the sum of (i) the greater of the Executive's then current annual base salary or the Executive's annual

base salary as of the date one (1) day prior to his or her Termination Date and (ii) fifteen percent (15%) [twenty percent (20%)] of the amount determined under (i) above.

E. "Cause" shall mean only a termination by the Company or an Affiliate as a result of the Executive's fraud, misappropriation of or intentional material damage to the property or business of the Company (including its Affiliates), substantial and material failure by the Executive to fulfill the duties and responsibilities of his or her regular position and/or comply with the Company's or its Affiliates' policies, rules or regulations, or the Executive's conviction of a felony.

F. "Termination Date" shall mean the date of employment termination indicated in the written notice provided by the Company or the Executive to the other.

3. Medical and Dental Benefits. If the Executive is entitled to a Change in Control Severance Amount hereunder, then to the extent that the Executive or any of the Executive's dependents may be covered nder the terms of any medical and dental plans of the Company (or any Affiliate) for active employees immediately prior to the Termination Date, the Company will provide the Executive and those dependents with equivalent coverages for a period not to exceed twenty-four (24) months from the Termination Date. The coverages may be procured directly by the Company (or any Affiliate, if appropriate) apart from, and outside of the terms of the plans themselves; provided that the Executive and the Executive's dependents comply with all of the conditions of the medical or dental plans. In the event the Executive or any of the Executive's dependents become eligible for coverage under the terms of any other medical and/or dental plan of a subsequent employer which plan benefits are comparable to Company (or any Affiliate) plan benefits, coverage under the Company's (or any Affiliate's) plans will cease for the Executive and/or dependent. The Executive and Executive's dependents must notify the Company (or any Affiliate) of any subsequent employment and provide information regarding medical and/or dental coverage available. In the event the Company (or any Affiliate) discovers that the Executive and/or dependent has become employed and not provided the above notification, all payments and benefits under this Agreement will cease.

4. Golden Parachute Payment Adjustment. It is the intention of the parties that the Change in Control Severance Amount under this Agreement and the value of all other amounts and benefits provided pursuant to a Change in Control, either under this Agreement or any other plan or agreement to which the Executive is a party, shall not constitute "excess parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations thereunder. However, if the independent accountants acting as auditors for the Company on the date of a Change in Control (or another accounting firm designated by the parties) determine, in consultation with legal counsel acceptable to the parties, that any amount payable to the Executive by the Company under this Agreement, or any other plan or agreement under which the Executive participates or is a party, would constitute an excess parachute payment within the meaning of Section 280G of the Code and be subject to the "excise tax" imposed by Section 4999 of the Code, then the Company shall pay to the Executive the amount of such excise tax and all federal and state income or other taxes with respect to the payment of the amount f such excise tax, including all such taxes with respect to any such additional amount. If at a later date, the Internal Revenue Service assesses a deficiency against the Executive for the excise tax which is greater than that which was determined at the time such amounts were paid, the Company shall pay to the Executive the amount of such excise tax plus any interest, penalties and professional fees or expenses, incurred by the Executive as a result of such assessment, including all such taxes with respect to any such additional amount. The highest marginal tax rate applicable to individuals at the time of payment of such amounts will be used for purposes of determining the federal and state income and other taxes with respect thereto. The Company shall withhold from any amounts paid under this Agreement the amount of any excise tax or other federal, state or local taxes

then required to be withheld. Computations of the amount of any supplemental compensation paid under this subparagraph shall be made by the independent public accountants then regularly retained by the Company, in consultation with legal counsel acceptable to the parties. The Company shall pay all accountant and legal counsel fees and expenses.

5. A. Restrictive Covenant. The Company and the Executive have jointly reviewed the customer lists and operations of the Company and have agreed that the primary service area of the lending and deposit taking functions of the Company and its Affiliates in which the Executive has actively participated extends to an area encompassing sixty (60) mile radius from the center of Warsaw, Indiana. Therefore, as an essential ingredient of and in consideration of this Agreement and the payment of the Change in Control Severance Amount, the Executive hereby agrees that, except with the express prior written consent of the Company, for a period of two (2) years after the termination of the Executive's employment with the Company in connection with or upon a Change in Control and the Executive's receipt of the Change in Control Severance Amount (the "Restrictive Period"), he will not directly or indirectly compete with the business of the Company, including, but not by way of limitation, by directly or indirectly owning, managing, operating, controlling, financing, or by directly or indirectly serving as an executive, officer or director of or consultant to, or by soliciting or inducing, or attempting to solicit or induce, any employee or agent of the Company or an Affiliate to terminate employment and become employed by any person, firm, partnership, corporation, trust or other entity which owns or operates, a bank, savings and loan association, credit union or similar financial institution (a "Financial Institution") within a fifty (50) mile radius of the center of Warsaw, Indiana the "Restrictive Covenant"). If the Executive violates the Restrictive Covenant and the Company brings legal action for injunctive or other relief, the Company shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to have the duration specified in this paragraph computed from the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by the Executive. The foregoing Restrictive Covenant shall not prohibit the Executive from owning directly or indirectly capital stock or similar securities which do not represent more than one percent (1%) of the outstanding capital stock of any Financial Institution listed on a securities exchange or quoted on the National Association of Securities Dealers Automated Quotation System. Notwithstanding the above, the Restrictive Covenant will be unenforceable in the event the Executive elects to forego and not receive the Change in Control Severance Amount.

B. Remedies for Breach of Restrictive Covenant. The Executive acknowledges that the restrictions contained in this paragraph are reasonable and necessary for the protection of the legitimate business interests of the Company and its Affiliates, that any violation of these restrictions would cause substantial injury to the Company and such interests, that the Company would not have entered into this Agreement with the Executive without receiving the additional consideration offered by the Executive in binding himself to these restrictions and that such restrictions were a material inducement to the Company to enter into this Agreement. In the event of any violation or threatened violation of these restrictions, the Company, in

addition to and not in limitation of, any other rights, remedies or damages available to the Company under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by the Executive and any and all persons directly or indirectly acting for or with him, as the case may be.

6. Notices. Notices and all other communications under this Agreement shall be in writing and shall be deemed given when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company to:

Lakeland Financial Corporation
Attention: Chairman of the Board
202 East Center Street
P.O. Box 1387
Warsaw, Indiana 46580

If to the Executive to:

____
____
____

or to such other address as either party may furnish to the other in writing, except that notices of changes of address shall be effective only upon receipt.

7. Applicable Law. This Agreement is entered into under, and shall be governed for all purposes by, the laws of the state of Indiana.

8. Severability. If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement and all other provisions shall remain in full force and effect.

9. Withholding of Taxes. The Company may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling.

10. Not an Employment Agreement. Nothing in this Agreement shall give the Executive any rights (or impose any obligations) to continued employment by the Company or any Affiliate or successor of the Company, nor shall it give the Company any rights (or impose any obligations) for the continued performance of duties by the Executive for the Company or any Affiliate or successor of the Company.

11. No Assignment. The Executive's rights to receive payments or benefits under this Agreement shall not be assignable or transferable whether by pledge, creation of a security interest or otherwise, other than a transfer by will or by the laws of descent or distribution. In the event of any attempted assignment or transfer contrary to this paragraph, the Company shall have no liability to pay any amount so attempted to be assigned or transferred. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

12. Successors. This Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns (including, without limitation, any company into or with which the Company may merge or consolidate). The Company agrees that it will not effect the sale or other disposition of all or substantially all of its assets unless either (a) the person or entity acquiring the assets, or a substantial portion of the assets, shall expressly assume by an instrument in writing all duties and obligations of the Company under this Agreement, or (b) the Company shall provide, through the establishment of a separate reserve, for the payment in full of all amounts which are or may reasonably be expected to become payable to the Executive under this Agreement.

13. Legal Fees. All reasonable legal fees and related expenses (including the costs of experts, evidence and counsel) paid or incurred by the Executive pursuant to any dispute or question of interpretation relating this Agreement shall be paid or reimbursed by the Company if the Executive is successful on the merits pursuant to a legal judgment, arbitration or settlement.

14. Term. The term of this Agreement shall commence on the Effective Date and shall continue for a period of two (2) years. This Agreement shall automatically extend for one (1) year on each anniversary of the Effective Date, unless terminated by either party effective as of the last day of the then current two (2) year extension by written notice to that effect delivered to the other not less than ninety (90) days prior to the anniversary of the Effective Date; provided however, no termination of this Agreement shall be effective if a Change in Control occurs within twelve (12) months of such termination. In the event of a Change in Control during the term of this Agreement, this Agreement shall remain in effect for the Covered Period.

15. Amendment. This Agreement may not be amended or modified except by written agreement signed by the Executive and the Company.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first written.

LAKELAND FINANCIAL CORPORATION

By:

----------------------------------	----------------------------------
R. Douglas Grant Chairman of the Board	[Executive]

Lakeland Financial Corporation
WARSAW, INDIANA
INCORPORATED UNDER THE LAWS OF THE STATE OF

NUMBER SHARES

THIS CERTIFIES THAT IS THE OWNER OF

CUSIP 511656 10 0

fully paid and non-assessable shares of the common capital stock, no par value, of LAKELAND FINANCIAL CORPORATION, (hereinafter called "Corporation"), transferable only on the books of the Corporation by the holder hereof in person, or by attorney, upon surrender of this Certificate properly endorsed.

In Witness Whereof, the said Corporation has caused this Certificate to be signed in facsimile by its duly authorized officers.

Dated:

COUNTERSIGNED AND REGISTERED:
LAKE CITY BANK [WARSAW, INDIANA]
TRANSFER AGENT AND REGISTRAR

/s/Michael L. Kubacki
PRESIDENT & CHIEF EXECUTIVE OFFICER

/s/David M. Findlay
SECRETARY

BY:____________________________
AUTHORIZED SIGNATURE

A full statement of the kinds and classes of shares and the relative rights, interests, preferences and restrictions of each class of shares within the Corporation is authorized to issue will be furnished by the Corporation to any shareholder upon a written request and without charge.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written but in full according to applicable laws or regulations:

TEN COM - as tenants in common
TEN ENT - as tenants by the entireties
JT TEN - as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT - ...Custodian... (Cust) (Minor) under Uniform Gifts to Minors Act .... (Sigrn)

For value received _____________ hereby sell, assign and transfer unto PLEASE INSERT SOCIEL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE ___________________________________

____
(PLEASE PRINT ON TYPEWRTE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE)
____

____

of the Common Capital Shares represented by the within Certificate and do hereby irrevocably constitute and appoint ___________________________________

____Attorney to transfer the said shares on the books of the within-named Corporation with full power of substitution in the premises.

Dated ________________________

Signature guaranteed by: Signature

__________________________________ ________________________________

__________________________________ ________________________________
COMMERCIAL BANK OR MEMBER FIRM
OF A MAJOR STOCK EXCHANGE

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATEVER.

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference and use of our report, dated January 12, 2001, on the consolidated financial statements of Lakeland Financial Corporation, which is incorporated by reference in Lakeland Financial Corporation's Registration Statements on Form S-3 (Registration No. 333-34626) and Form S-8 (Registration No. 333-48402).

Crowe, Chizek and Company LLP

South Bend, Indiana
March 27, 2001

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, 2000
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
Common	The Nasdaq Stock Market's National Market
Preferred Securities of Lakeland Capital Trust	The Nasdaq Stock Market's National Market

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

None

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.[X]

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 Nasdaq closing value at February 21, 2001, and assuming solely for the purposes of this calculation that all directors and executive officers of the Registrant are "affiliates": $83,220,656.

Number of shares of common stock outstanding at February 21, 2001: 5,779,932

DOCUMENTS INCORPORATED BY REFERENCE

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

Part	Document
I, II & IV	Lakeland Financial Corporation's Annual Report to Shareholders for the year ended December 31, 2000, portions of which are incorporated into Parts I, II and IV of this Form 10-K.
III	Proxy statement mailed to shareholders on March 14, 2001, which is incorporated into Part III of this Form 10-K.

Cover page 2 of 2 pages

PART I

ITEM 1. BUSINESS

The Company was incorporated under the laws of the State of Indiana on February 8, 1983. As used herein, the term "Company" refers to Lakeland Financial Corporation, or if the context dictates, Lakeland Financial Corporation and its wholly-owned subsidiaries, Lake City Bank and Lakeland Capital Trust, as well as LCB Investments Limited, a wholly-owned subsidiary of Lake City Bank.

General

Company's Business. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended. The Company owns all of the outstanding stock of Lake City Bank, Warsaw, Indiana, a full service commercial bank organized under Indiana law (the "Bank"), and Lakeland Capital Trust, a statutory business trust formed under Delaware law ("Lakeland Trust"). The Bank has a wholly-owned subsidiary, LCB Investments Limited, a Bermuda company, which manages a portion of the Bank's investment portfolio. The Company 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 to the extent permissible by law. The Bank's main banking office is located at 202 East Center Street, Warsaw, Indiana. As of December 31, 2000, the Bank had 43 offices in fifteen counties throughout north central Indiana.

The Company conducts no business except that which is incident to its ownership of the stock of the Bank, the collection of dividends from the Bank, and the disbursement of dividends to shareholders.

Lakeland Trust, a statutory business trust, was formed under Delaware law pursuant to a trust agreement dated July 24, 1997 and a certificate of trust filed with the Delaware Secretary of State on July 24, 1997. Lakeland Trust exists for the exclusive purposes of (i) issuing the trust securities representing undivided beneficial interests in the assets of Lakeland Trust, (ii) investing the gross proceeds of the trust securities in the subordinated debentures issued by the Company, and (iii) engaging in only those activities necessary, advisable, or incidental thereto. The subordinated debentures and payments thereunder are the only assets of Lakeland Trust, and payments under the subordinated debentures are the only revenue of Lakeland Trust. Lakeland Trust has a term of 55 years, but may be terminated earlier as provided in the trust agreement.

Forward-looking Statements

When used in this report and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market area and competition, all or some of which could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

The Company wishes to caution readers not to place undo reliance on any such forward-looking statements, which speak only as of the date made, and advise readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

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's activities cover all phases of commercial banking, including checking accounts, savings accounts, time deposits, the sale of securities under agreements to repurchase, brokerage services, commercial and agricultural lending, direct and indirect consumer lending, real estate mortgage lending, safe deposit box services, trust and investment 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 competes for loans principally through the range and quality of services it provides including a focus on relationship development, interest rates and loan fees. The Bank believes that its convenience, quality service and hometown relationship approach to banking enhances its ability to compete favorably in attracting and retaining individual and business customers. The Bank actively solicits deposit-related customers and competes for customers by offering personal attention, professional service and competitive interest rates.

The Bank's service area is north central and north east Indiana. 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. 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 large commercial deposit and loan accounts. The Bank is presently subject to an aggregate maximum loan limit to any single account of approximately $10 million pursuant to Indiana law and internal lending guidelines. This maximum prohibits the Bank from providing a full range of banking services to those businesses or personal accounts whose borrowing requirements may exceed this amount. In order to retain at least a portion of the banking 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.

Under the Gramm-Leach-Bliley Act of 1999, effective March 11, 2000, securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. The Gramm-Leach-Bliley Act may significantly change the competitive environment in which the Company and the Bank conduct business. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

Foreign Operations

The Company has no investments with any foreign entity other than two nominal demand deposit accounts. One is maintained with a Canadian bank in order to facilitate the clearing of checks drawn on banks located in that country. The other is maintained with a bank in Bermuda for LCB Investments Limited to be used for administrative expenses. There are no foreign loans.

Employees

At December 31, 2000, the Company, including its subsidiaries, had 435 full-time equivalent employees. Benefit programs include a pension plan, 401(k) plan, group medical insurance, group life insurance and paid vacations. Effective April 1, 2000, the defined benefit pension plan was frozen. The Bank is not a party to any collective bargaining agreement, and employee relations are considered good. The Company also has a stock option plan under which stock options may be granted to employees and directors.

Supervision and Regulation

General

Financial institutions and their holding companies are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes and regulations and the policies of various governmental regulatory authorities, including the Indiana Department of Financial Institutions (the "DFI"), the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation (the "FDIC"), the Internal Revenue Service and state taxing authorities and the Securities and Exchange Commission (the "SEC"). The effect of applicable statutes, regulations and regulatory policies can be significant, and cannot be predicted with a high degree of certainty.

Federal and state laws and regulations generally applicable to financial institutions, such as the Company and its subsidiaries, regulate, among other things, the scope of business, investments, reserves against deposits, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to the Company and its subsidiaries establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit insurance funds and the depositors, rather than the shareholders, of financial institutions.

The following is a summary of the material elements of the regulatory framework that applies to the Company and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply to the Company and its subsidiaries, nor does it restate all of the requirements of the statutes, regulations and regulatory policies that are described. As such, the following is qualified in its entirety by reference to the applicable statutes, regulations and regulatory policies. Any change in applicable law, regulations or regulatory policies may have a material effect on the business of the Company and its subsidiaries.

The Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with,

and is subject to regulation by, the Federal Reserve under the Bank Holding Company Act, as amended (the "BHCA"). In accordance with Federal Reserve policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is also required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require. The Company is also subject to regulation by the DFI under Indiana law.

Investments and Activities. Under the BHCA, a bank holding company must obtain Federal Reserve approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after the acquisition, it would own or control more than 5% of the shares of the other bank or bank holding company (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank; or (iii) merging or consolidating with another bank holding company. Subject to certain conditions (including certain deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States without regard to whether the acquisition is prohibited by the law of the state in which the target bank is located. In approving interstate acquisitions, however, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws which require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company.

The BHCA also generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies that have not received approval to operate as financial holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve to be "so closely related to banking ... as to be a proper incident thereto." Under current regulations of the Federal Reserve, this authority would permit the Company to engage in a variety of banking-related businesses, including the operation of a thrift, sales and consumer finance, equipment leasing, the operation of a computer service bureau (including software development), and mortgage banking and brokerage. Eligible bank holding companies that elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance activities and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank or financial holding companies. As of the date of this filing, the Company has not applied for nor received approval to operate as a financial holding company.

Federal law also prohibits any person or company from acquiring "control" of a bank or bank holding company without prior notice to the appropriate federal bank regulator. "Control" is defined in certain cases as the acquisition of 10% or more of the outstanding shares of a bank or bank holding company.

Capital Requirements. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines. If capital falls below minimum guideline levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve's capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: (i) a risk-based requirement expressed as a percentage of total risk-weighted assets; and (ii) a leverage requirement expressed as a percentage of total assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. The leverage requirement consists of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly rated companies, with a minimum requirement of 4% for all others. For purposes of these capital standards, Tier 1 capital consists primarily of permanent stockholders' equity less intangible assets (other than certain mortgage servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus certain other debt and equity instruments which do not qualify as Tier 1 capital and a portion of the company's allowance for loan and lease losses.

The risk-based and leverage standards described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 capital less all intangible assets), well above the minimum levels.

As of December 31, 2000, the Company had regulatory capital in excess of the Federal Reserve's minimum requirements, with a risk-based capital ratio of 10.24% and a leverage ratio of 7.20%. As of December 31, 2000, the Company was well-capitalized, as defined by Federal Reserve regulations.

Dividends. The Federal Reserve has issued a policy statement with regard to the payment of cash dividends by bank holding companies. The policy statement provides that a bank holding company should not pay cash dividends which exceed its net income or which can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Federal Securities Regulation. The Company's common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

The Bank

General. The Bank is an Indiana-chartered bank, the deposit accounts of which are insured by the FDIC's Bank Insurance Fund ("BIF"). As a BIF-insured, Indiana-chartered bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the DFI, as the chartering authority for Indiana banks, and the FDIC, as administrator of the BIF.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their respective levels of capital and results of supervisory evaluations. Institutions classified as well-capitalized (as defined by the FDIC) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (as defined by the FDIC) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured institutions is made by the FDIC for each semi-annual assessment period.

During the year ended December 31, 2000, BIF assessments ranged from 0% of deposits to 0.27% of deposits. For the semi-annual assessment period beginning January 1, 2001, BIF assessment rates will continue to range from 0% of deposits to 0.27% of deposits.

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution: (i) has engaged or is engaging in unsafe or unsound practices; (ii) is in an unsafe or unsound condition to continue operations; or (iii) has violated any applicable law, regulation, order or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital. Management of the Bank is not aware of any activity or condition that could result in termination of the deposit insurance of the Bank.

FICO Assessments. Since 1987, a portion of the deposit insurance assessments paid by members of the FDIC's Savings Association Insurance Fund ("SAIF") has been used to cover interest payments due on the outstanding obligations of the Financing Corporation ("FICO"). FICO was created in 1987 to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the SAIF's predecessor insurance fund. As a result of federal legislation enacted in 1996, beginning as of January 1, 1997, both SAIF members and BIF members became subject to assessments to cover the interest payments on outstanding FICO obligations. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. Between January 1, 2000, and the final maturity of the outstanding FICO obligations in 2019, BIF members and SAIF members will share the cost of the interest on the FICO bonds on a pro rata basis. During the year ended December 31, 2000, the FICO assessment rate for BIF and SAIF members was approximately 0.02% of deposits.

Supervisory Assessments. All Indiana bank are required to pay supervisory assessments to the DFI to fund the operations of the DFI. During the year ended December 31, 2000, the Bank paid supervisory assessments to the DFI totaling $72,000.

Capital Requirements. The FDIC has established the following minimum capital standards for state-chartered insured nonmember banks, such as the Bank: (i) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others; and (ii) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. For purposes of these capital standards, Tier 1 capital and total capital consist of substantially the same components as Tier 1 capital and total capital under the Federal Reserve's capital guidelines for bank holding companies (see "--The Company--Capital Requirements").

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, the regulations of the FDIC provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

During the year ended December 31, 2000, the Bank was not required by the FDIC to increase its capital to an amount in excess of the minimum regulatory requirement. As of December 31, 2000, the Bank exceeded its minimum regulatory capital requirements with a leverage ratio of 7.06% and a risk-based capital ratio of 10.06%.

Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution. As of December 31, 2000, the Bank was well capitalized, as defined by FDIC regulations.

Dividends. Indiana law prohibits the Bank from paying dividends in an amount greater than its undivided profits. The Bank is required to obtain the approval of the DFI for the payment of any dividend if the total of all dividends declared by the Bank during the calendar year, including the proposed dividend, would exceed the sum of the retained net income for the year to date combined with its retained net income for the previous two years. Indiana law defines "retained net income" to mean the net income of a specified period, calculated under the consolidated report of income instructions, less the total amount of all dividends declared for the specified period.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2000. As of December 31, 2000, approximately $17 million was available to be paid as dividends to the Company by the Bank. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by the Bank if the FDIC determines such payment would constitute an unsafe or unsound practice.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on extensions of credit to the Company and its subsidiaries, on investments in the stock or other securities of the Company and its subsidiaries and the acceptance of the stock or other securities of the Company or its subsidiaries as collateral for loans. Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal stockholders of the Company, and to "related interests" of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person becoming a director or officer of the Company or one of its subsidiaries or a principal stockholder of the Company may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines which establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions.

The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority. Indiana banks, such as the Bank, have the authority under Indiana law to establish branches anywhere in the State of Indiana, subject to receipt of all regulatory approvals.

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act"), both state and national banks are allowed to establish interstate branch networks through acquisitions of other banks, subject to certain conditions, including certain limitations on the aggregate amount of deposits that may be held by the surviving bank and all of its insured depository institution affiliates. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed by the Riegle-Neal Act only if specifically authorized by state law. The legislation allowed individual states to "opt-out" of certain provisions of the Riegle-Neal Act by enacting appropriate legislation prior to June 1, 1997. Indiana law permits interstate mergers subject to certain conditions, including a prohibition against interstate mergers involving Indiana banks that have been in existence and continuous operation for fewer than five years. Additionally, Indiana law allows out-of-state banks to acquire individual branch offices in Indiana and to establish new branches in Indiana subject to certain conditions, including a requirement that the laws of the state in which the out-of-state bank is headquartered grant Indiana banks authority to acquire and establish branches in such state.

State Bank Activities. Under federal law and FDIC regulations, FDIC insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank.

Eligible state banks are also authorized to engage, through "financial subsidiaries," in certain activities that are permissible for financial holding companies (as described above) and certain activities that the Secretary of the Treasury, in consultation with the Federal Reserve,

determines is financial in nature or incidental to any such financial activity. As of the date of this filing, the Bank has not applied for nor received approval to establish any financial subsidiaries.

Federal Reserve System. Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW, Investor's Weekly and regular checking accounts), as follows: for transaction accounts aggregating $42.8 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of $42.8 million, the reserve requirement is $1.284 million plus 10% of the aggregate amount of total transaction accounts in excess of $42.8 million. The first $5.5 million of otherwise reservable balances are exempted from the reserve requirements. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Bank is in compliance with the foregoing requirements.

Industry Segments

The Company is engaged in a single industry and performs a single service -- commercial banking. On the pages that follow are tables which set forth selected statistical information relative to the business of the Company. This data should be read in conjunction with the consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set forth in the 2000 Annual Report to Shareholders herein incorporated by reference (attached hereto as Exhibit 13).

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

	2000			1999		
	Average Balance	Interest Income	Yield (1)	Average Balance	Interest Income	Yield (1)
ASSETS						
Earning assets:						
Loans:						
Taxable (2)	$ 676,807	$ 61,554	9.09%	$ 602,250	$ 51,602	8.57%
Tax exempt (1)	2,391	215	8.99	2,920	275	9.42
Investments: (1)						
Available for sale	279,569	18,850	6.74	291,005	18,597	6.39
Held to maturity	0	0	0.00	0	0	0.00
Short-term investments	5,778	367	6.35	5,230	259	4.95
Interest bearing deposits	960	55	5.73	308	16	5.19
Total earning assets	965,505	81,041	8.39%	901,713	70,749	7.85%
Nonearning assets:						
Cash and due from banks	41,202	0		37,767	0	
Premises and equipment	27,276	0		27,248	0	
Other nonearning assets	30,191	0		27,784	0	
Less: allowance for loan losses	(6,813)	0		(5,958)	0	
Total assets	$ 1,057,361	$ 81,041		$ 988,554	$ 70,749	

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 34 percent tax rate for 2000 and 1999. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983, included the TEFRA adjustment applicable to nondeductible interest expenses. Nonaccrual loans are included in the above analysis as earning assets - loans.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 2000 and 1999 are included as taxable loan interest income.

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

	1999			1998		
	Average Balance	Interest Income	Yield (1)	Average Balance	Interest Income	Yield (1)
ASSETS						
Earning assets:						
Loans:						
Taxable (2)	$ 602,250	$ 51,602	8.57%	$ 486,437	$ 44,225	9.09%
Tax exempt (1)	2,920	275	9.42	2,899	295	10.18
Investments: (1)						
Available for sale	291,005	18,597	6.39	142,499	9,062	6.36
Held to maturity	0	0	0.00	160,173	10,858	6.78
Short-term investments	5,230	259	4.95	9,545	510	5.34
Interest bearing deposits	308	16	5.19	133	9	6.77
Total earning assets	901,713	70,749	7.85%	801,686	64,959	8.10%
Nonearning assets:						
Cash and due from banks	37,767	0		36,215	0	
Premises and equipment	27,248	0		25,198	0	
Other nonearning assets	27,784	0		24,324	0	
Less: allowance for loan losses	(5,958)	0		(5,403)	0	
Total assets	$ 988,554	$ 70,749		$ 882,020	$ 64,959	

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 34 percent tax rate for 1999 and 1998. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983, included the TEFRA adjustment applicable to nondeductible interest expenses. Nonaccrual loans are included in the above analysis as earning assets - loans.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 1999 and 1998 are included as taxable loan interest income.

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

	2000			1999		
	Average Balance	Interest Expense	Yield	Average Balance	Interest Expense	Yield
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Savings deposits	$ 53,372	$ 899	1.68%	$ 54,562	$ 935	1.71%
Interest bearing checking accounts	71,124	1,856	2.61	56,304	861	1.53
Time Deposits:						
In denominations under $100,000	367,321	21,816	5.94	359,700	17,394	4.84
In denominations over $100,000	157,040	7,824	4.98	150,182	7,963	5.30
Miscellaneous short-term borrowings	176,562	10,083	5.71	146,680	7,139	4.87
Long-term borrowings	32,342	2,523	7.80	37,312	2,801	7.51
Total interest bearing liabilities	857,761	45,001	5.25%	804,740	37,093	4.61%
Noninterest bearing liabilities and stockholders' equity:						
Demand deposits	134,270	0		120,808	0	
Other liabilities	8,447	0		7,834	0	
Stockholders' equity	56,883	0		55,172	0	
Total liabilities and stockholders' equity	$ 1,057,361	$ 45,001		$ 988,554	$ 37,093	
Net interest differential - yield on average daily earning assets		$ 36,040	3.73%		$ 33,656	3.73%

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

	1999			1998		
	Average Balance	Interest Expense	Yield	Average Balance	Interest Expense	Yield
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Savings deposits	$ 54,562	$ 935	1.71%	$ 55,299	$ 1,331	2.41%
Interest bearing checking accounts	56,304	861	1.53	65,895	1,322	2.01
Time Deposits:						
In denominations under $100,000	359,700	17,394	4.84	326,123	17,234	5.28
In denominations over $100,000	150,182	7,963	5.30	142,589	8,267	5.80
Miscellaneous short-term borrowings	146,680	7,139	4.87	90,752	4,724	5.21
Long-term borrowings	37,312	2,801	7.51	44,349	3,213	7.24
Total interest bearing liabilities	804,740	37,093	4.61%	725,007	36,091	4.98%
Noninterest bearing liabilities and stockholders' equity:						
Demand deposits	120,808	0		98,957	0	
Other liabilities	7,834	0		7,386	0	
Stockholders' equity	55,172	0		50,670	0	
Total liabilities and stockholders' equity	$ 988,554	$ 37,093		$ 882,020	$ 36,091	
Net interest differential - yield on average daily earning assets		$ 33,656	3.73%		$ 28,868	3.60%

ANALYSIS OF CHANGES IN INTEREST DIFFERENTIALS
(fully taxable equivalent basis)
(in thousands of dollars)

YEAR ENDED DECEMBER 31,

	2000 Over (Under) 1999 (1)			1999 Over (Under) 1998 (1)		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST AND LOAN FEE INCOME (2)						
Loans:						
Taxable	$ 6,651	$ 3,301	$ 9,952	$ 10,041	$ (2,664)	$ 7,377
Tax exempt	(48)	(12)	(60)	2	(115)	(113)
Investments:						
Available for sale	(748)	1,001	253	8,881	(607)	8,274
Held to maturity	0	0	0	(10,858)	0	(10,858)
Short-term investments	29	79	108	(215)	(37)	(252)
Interest bearing deposits	37	2	39	10	(3)	7
Total interest income	5,921	4,371	10,292	7,861	(3,426)	4,435
INTEREST EXPENSE						
Savings deposits	(20)	(16)	(36)	(18)	(378)	(396)
Interest bearing checking accounts	270	725	995	(175)	(286)	(461)
Time deposits						
In denominations under $100,000	376	4,046	4,422	1,692	(1,532)	160
In denominations over $100,000	354	(493)	(139)	426	(730)	(304)
Miscellaneous short-term borrowings	1,591	1,353	2,944	2,740	(325)	2,415
Long-term borrowings	(384)	106	(278)	(525)	113	(412)
Total interest expense	2,187	5,721	7,908	4,140	(3,138)	1,002
INCREASE (DECREASE) IN INTEREST DIFFERENTIALS	$ 3,734	$ (1,350)	$ 2,384	$ 3,721	$ (288)	$ 3,433

(1) The earning assets and interest bearing liabilities used to calculate interest differentials are based on average daily balances for 2000, 1999 and 1998. The changes in volume represent "changes in volume times the old rate". The changes in rate represent "changes in rate times old volume". The changes 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 was converted to a fully taxable equivalent basis at a 34 percent tax rate for 2000, 1999 and 1998. The tax equivalent rate for tax exempt loans and tax exempt securities included the 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, 2000, 1999 and 1998 were as follows:

	2000		1999		1998	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:						
U.S. Treasury securities	$ 38,037	$ 38,066	$ 35,133	$ 34,614	$ 38,938	$ 39,521
U.S. Government agencies	6,672	6,550	3,726	3,201	909	1,025
Mortgage-backed securities	207,499	207,594	196,245	192,569	225,741	225,914
State and municipal securities	35,416	35,430	35,432	32,714	56,924	59,112
Other debt securities	6,327	5,968	8,829	8,323	2,086	2,086
Total debt securities available for sale	$ 293,951	$ 293,608	$ 279,365	$ 271,421	$ 324,598	$ 327,658
Securities held to maturity:						
U.S. Treasury securities	$ 0	$ 0	$ 0	$ 0	$ 21,170	$ 21,501
U.S. Government agencies	0	0	0	0	2,176	2,246
Mortgage-backed securities	0	0	0	0	116,788	117,185
State and municipal securities	0	0	0	0	22,418	24,044
Other debt securities	0	0	0	0	1,007	1,103
Total debt securities held to maturity	$ 0	$ 0	$ 0	$ 0	$ 163,559	$ 166,079

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

The weighted average yields (1) and maturity distribution (2) for debt securities portfolio at December 31, 2000, were 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	$ 30,282	$ 7,755	$ 0	$ 0
Yield	6.35%	8.27%		
Government agencies				
Book value	0	6,671	0	0
Yield		5.51%		
Mortgage-backed securities				
Book value	120	5,879	86,573	114,742
Yield	7.00%	6.52%	6.90%	6.97%
State and municipal securities subdivisions				
Book value	0	99	2,155	33,348
Yield		6.85%	5.13%	5.02%
Other debt securities				
Book value	0	3,077	0	3,250
Yield		6.88%		8.84%
Total debt securities available for sale:				
Book value	$ 30,402	$ 23,481	$ 88,728	$ 151,340
Yield	6.36%	6.86%	6.85%	6.58%

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 34% rate.
(2) The maturity distribution of mortgage-backed securities was based upon nticipated payments as computed by using the historic average payment speed from date of issue.

There were no investments in securities of any one issuer that exceeded 10% of stockholders' equity at December 31, 2000.

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

The Company segregates its loan portfolio into four basic segments: commercial (including agri-business and agricultural loans), real estate mortgages, installment and personal line of credit loans(including credit card loans). The loan portfolio as of December 31, 2000, 1999, 1998, 1997 and 1996 was as follows:

	2000	1999	1998	1997	1996
Commercial loans:					
Taxable	$ 487,125	$ 419,034	$ 343,858	$ 269,887	$ 226,190
Tax exempt	2,374	3,048	2,867	3,065	3,414
Total commercial loans	489,499	422,082	346,725	272,952	229,604
Real estate mortgage loans	52,731	46,872	60,555	65,368	60,949
Installment loans	129,729	146,711	100,196	89,107	71,398
Line of credit and credit card loans	46,917	38,233	31,020	31,207	20,314
Total loans	718,876	653,898	538,496	458,634	382,265
Less allowance for loan losses	7,124	6,522	5,510	5,308	5,306
Net loans	$ 711,752	$ 647,376	$ 532,986	$ 453,326	$ 376,959

The real estate mortgage loan portfolio included construction loans totaling $3,627, $4,488, $2,975, $3,089 and $1,647 as of December 31, 2000, 1999, 1998, 1997 and 1996. The loan classifications are based on the nature of the loans as of the loan origination date. There were no foreign loans included in the loan portfolio for the periods presented.

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 indicates the rate sensitivity of the loan portfolio as of December 31, 2000. The table includes the real estate loans held for sale and assumes these loans will not be sold during the various time horizons.

	Commerciall	Real Estate	Installment	Line of Credit and Credit Card	Total	Percent
Immediately adjustable interest rates or original maturity of one day	$ 269,542	$ 0	$ 0	$ 43,399	$ 312,941	43.5%
Other within one year	68,908	5,563	42,555	2,550	119,576	16.6
After one year, within five years	142,641	5,058	84,797	825	233,321	32.5
Over five years	8,239	42,073	2,377	143	52,832	7.4
Nonaccrual loans	169	37	0	0	206	0.0
Total loans	$ 489,499	$ 52,731	$ 129,729	$ 46,917	$ 718,876	100.0%

A portion of the 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, 2000 amounted to $240,702 and $45,453.

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, 2000, 1999, 1998, 1997 and 1996.

	2000	1999	1998	1997	1996
PART A - PAST DUE ACCRUING LOANS (90 DAYS OR MORE)					
Real estate mortgage loans	$ 398	$ 0	$ 0	$ 0	$ 126
Commercial and industrial loans	7,635	20	159	236	22
Loans to individuals for household, family and other personal expenditures	171	151	68	69	68
Loans to finance agriculture production and other loans to farmers	0	0	0	0	0
Total past due loans	8,204	171	227	305	216
PART B - NONACCRUAL LOANS					
Real estate mortgage loans	37	0	0	338	155
Commercial and industrial loans	169	329	0	720	229
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	206	329	0	1,058	384
PART C - TROUBLED DEBT RESTRUCTURED LOANS	1,127	1,179	1,281	1,377	1,284
Total nonperforming loans	$ 9,537	$ 1,679	$ 1,508	$ 2,740	$ 1,884

Nonearning assets of the Company include nonaccrual loans (as indicated above), nonaccrual investments, other real estate and repossessions, which amounted to $318 at December 31, 2000.

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 line 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 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 date when the loan becomes 90 days delinquent. Thereafter, interest is recognized and included in income only when received.

Loans past due over 90 days and still accruing interest were $6,791,000 (excluding impaired loans) at year-end 2000. The increase in loans past due 90 days or more and still accruing resulted from the inclusion of two commercial loans totaling $6.2 million, or approximately 90% of the $6.8 million in this category. Of this amount, $1.4 million was paid off subsequent to the end of the fiscal year. A second loan of $4.8 million matured in the fourth quarter of 2000 and has therefore been included in this category. The borrower is current on all interest under the matured facility. The Company has reached an agreement with a bank participant and the borrower to extend the terms of the financing. This extension was completed during the first quarter of 2001.

As of December 31, 2000, there were $206,000 of loans on nonaccrual status and one loan of $1.4 million classified as impaired.

PART C - TROUBLED DEBT RESTRUCTURED LOANS

Loans renegotiated as troubled debt restructurings 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 restructurings totaled $1.1 million as of December 31, 2000. Interest income of $106,000 was recognized in 2000. Had these loans been performing under the original contract terms, an additional $17,000 would have been reflected in interest income during 2000. The Company is not committed to lend additional funds to debtors whose loans have been modified.

PART D - OTHER NONPERFORMING ASSETS

Management is of the opinion that there are no significant foreseeable losses relating to substandard or nonperforming assets, except as discussed above in Part B - Nonperforming Loans and Part C - Troubled Debt Restructured Loans.

PART E - LOAN CONCENTRATIONS

There were no loan concentrations within industries which exceeded ten percent of total assets. It is estimated that over 90% 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 responsible for determining the adequacy of the allowance for loan losses. This responsibility is fulfilled by management in a number of ways, including the following:

- Management reviews the larger individual loans (primarily in the commercial loan portfolio) for unfavorable collectability 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.

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

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

Based upon these policies and objectives, $1.2 million, $1.3 million and $480,000 were charged to the provision for loan losses and added to the allowance for loan losses in 2000, 1999 and 1998, 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.

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

The following is a summary of the loan loss experience for the years ended December 31, 2000, 1999, 1998,

	2000	1999	1998	1997	1996
Amount of loans outstanding, December 31,	$ 718,876	$ 653,898	$ 538,496	$ 458,634	$ 382,265
Average daily loans outstanding during the year ended December 31,	$ 678,967	$ 605,170	$ 489,336	$ 414,033	$ 352,811
Allowance for loan losses, January 1,	$ 6,522	$ 5,510	$ 5,308	$ 5,306	$ 5,472
Loans charged-off					
Commercial	200	147	9	99	171
Real estate	30	6	0	33	0
Installment	483	252	329	190	158
Credit cards and personal credit lines	35	30	78	37	39
Total loans charged-off	748	435	416	359	368
Recoveries of loans previously charged-off					
Commercial	45	10	44	18	12
Real estate	0	0	0	0	0
Installment	93	114	86	66	54
Credit cards and personal credit lines	6	13	8	8	16
Total recoveries	144	137	138	92	82
Net loans charged-off	604	298	278	267	286
Purchase loan adjustment	0	0	0	0	0
Provision for loan loss charged to expense	1,206	1,310	480	269	120
Balance, December 31,	$ 7,124	$ 6,522	$ 5,510	$ 5,308	$ 5,306
Ratio of net charge-offs during the period to average daily loans outstanding					
Commercial	0.02%	0.02%	(0.01)%	0.02%	0.03%
Real estate	0.00	0.00	0.00	0.01	0.01
Installment	0.06	0.02	0.05	0.03	0.00
Credit cards and personal credit lines	0.01	0.01	0.02	0.01	0.04
Total	0.09%	0.05%	0.06%	0.07%	0.08%
Ratio of allowance for loan losses to Nonperforming assets	73.83%	368.06%	258.20%	176.99%	204.31%

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, 2000, 1999, 1998, 1997 and 1996.

	2000		1999		1998	
	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	$ 5,205	68.09%	$ 4,750	64.55%	$ 1,647	64.39%
Real estate	132	7.34	120	7.17	130	11.24
Installment	974	18.04	1,202	22.43	845	18.61
Credit cards and personal credit lines	352	6.53	185	5.85	130	5.76
Total allocated allowance for loan losses	6,663	100.00%	6,257	100.00%	2,752	100.00%
Unallocated allowance for loan losses	461		265		2,758	
Total allowance for loan losses	$ 7,124		$ 6,522		$ 5,510	

	1997		1996	
	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	$ 1,341	59.52%	$ 1,213	60.07%
Real estate	131	14.25	123	15.94
Installment	673	19.43	530	18.68
Credit cards and personal credit lines	103	6.80	151	5.31
Total allocated allowance for loan losses	2,248	100.00%	2,017	100.00%
Unallocated allowance for loan losses	3,060		3,289	
Total allowance for loan losses	$ 5,308		$ 5,306	

In 1999, the Company reviewed and revised the allocation process for the Allowance for Loan Losses. These changes primarily effected the allocations as they pertain to the commercial loans classified in the Company's internal watch list. These changes also brought the Company's methodology into conformity with recent regulatory guidance. The Company continues to review the allocation process and the documentation for the Allowance for Loan Losses, therefore future changes may occur.

ANALYSIS OF DEPOSITS
(in thousands of dollars)

The average daily deposits for the years ended December 31, 2000, 1999 and 1998, and the average rates paid on those deposits are summarized in the following table:

	2000		1999		1998	
	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid
Demand deposits	$ 134,270	0.00%	$ 120,808	0.00%	$ 98,957	0.00%
Savings accounts:						
Regular savings	53,372	1.68	54,562	1.71	55,299	2.41
Interest bearing checking	71,124	2.61	56,304	1.53	65,895	2.01
Time deposits:						
Deposits of $100,000 or more	157,040	4.98	150,182	5.30	142,589	5.80
Other time deposits	367,321	5.94	359,700	4.84	326,123	5.28
Total deposits	$ 783,127	4.14%	$ 741,556	3.66%	$ 688,863	4.09%

As of December 31, 2000, time certificates of deposit in denominations of $100,000 or more will mature as follows:

Within three months	$ 79,481
Over three months, within six months	64,333
Over six months, within twelve months	28,996
Over twelve months	7,489
Total time certificates of deposit in denominations of $100,000 or more	$ 180,299

QUALITATIVE MARKET RISK DISCLOSURE

Management's market risk disclosure appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2000 Annual Report to Shareholders and is incorporated herein by reference in response to this item. The Company's primary market risk exposure is interest rate risk. The Company does not have a material exposure to foreign currency exchange rate risk, does not own any derivative financial instruments and does not maintain a trading portfolio.

RETURN ON EQUITY AND OTHER RATIOS

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, 2000, 1999 and 1998 were as follows:

	2000	1999	1998
Percent of net income to:			
Average daily total assets	0.88%	0.84%	0.89%
Average daily stockholders' equity	16.39	15.08	15.57
Percentage of ividends declared per common share to basic earnings per weighted average number of common shares outstanding (5,813,984 shares in 2000, 1999 and 1998)	32.50	30.77	24.26
Percentage of average daily stockholders' equity to average daily total assets	5.38	5.58	5.74

SHORT-TERM BORROWINGS
(in thousands of dollars)

The following is a schedule, at the end of the year indicated, of statistical information relating to securities sold under agreement to repurchase maturing within one year and 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 stockholders' equity at the end of each period.

	2000	1999	1998
Outstanding at year end	$ 138,154	$ 121,374	$ 110,163
Approximate average interest rate at year end	5.37%	4.75%	4.78%
Highest amount outstanding as of any month end during the year	$ 143,677	$ 143,353	$ 110,163
Approximate average outstanding during the year	$ 121,267	$ 120,950	$ 84,157
Approximate average interest rate during the year	5.35%	4.76%	5.19%

Securities sold under agreement to repurchase include fixed rate, term transactions initiated by the investment department of the Bank, as well as corporate sweep accounts.

ITEM 2. PROPERTIES

The Company 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	601 Countryside Dr.	Columbia City	IN
Concord	4202 Elkhart Road	Goshen	IN
Cromwell	111 North Jefferson St.	Cromwell	IN
Elkhart Beardsley	864 East Beardsley St.	Elkhart	IN
Elkhart East	22050 State Road 120	Elkhart	IN
Elkhart Hubbard Hill	58404 State Road 19	Elkhart	IN
Elkhart Northwest	1208 N. Nappanee St.	Elkhart	IN
Fort Wayne North	302 East DuPont Rd.	Fort Wayne	IN
Fort Wayne Southwest	10429 Illinois Rd.	Fort Wayne	IN
Goshen Downtown	102 North Main St.	Goshen	IN
Goshen South	2513 South Main St.	Goshen	IN
Granger	12830 State Road 23	Granger	IN
Greentown	520 W. Main	Greentown	IN
Huntington	1501 N. Jefferson St.	Huntington	IN
Kendallville East	631 Professional Way	Kendallville	IN
LaGrange	901 South Detroit	LaGrange	IN
Ligonier Downtown	222 S. Calvin St.	Ligonier	IN
Ligonier South	1470 U.S. Highway 33 South	Ligonier	IN
Logansport	3900 Highway 24 East	Logansport	IN
Medaryville	Main St.	Medaryville	IN
Mentone	202 East Main St.	Mentone	IN
Middlebury	712 Wayne Ave.	Middlebury	IN
Milford	Indiana State Road 15 North	Milford	IN
Mishawaka	5015 N. Main St.	Mishawaka	IN
Nappanee	202 West Market St.	Nappanee	IN
North Webster	644 North Main St.	North Webster	IN
Peru	2 N. Broadway	Peru	IN
Pierceton	202 South First St.	Pierceton	IN
Plymouth	862 E. Jefferson St.	Plymouth	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
Warsaw East	3601 Commerce Dr.	Warsaw	IN
Warsaw West	1221 West Lake St.	Warsaw	IN
Winona Lake	99 Chestnut St.	Winona Lake	IN
Winona Lake East	1324 Wooster Rd.	Winona Lake	IN

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

In addition, the Company owns buildings, which it uses for various offices and computer facilities, for employee training and undeveloped real estate which it currently intends to use for branch facilities in the future. The Company also leases from third parties facilities for computer facilities and the storage of supplies.

None of the Company'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 Company 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 during the fourth quarter of 2000.

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 Company's common stock, and information as to dividends are contained under the caption "Stock and Dividend Information" in the 2000 Annual Report to Shareholders and are incorporated herein by reference. On December 31, 2000, the Company had approximately 1,900 shareholders of record, including those employees who participate in the Company's 401(K) plan.

On January 15, 1997, the Company sold 20,000 shares of authorized but previously unissued common stock for $15.50 per share (split adjusted).

In August, 1997, the common stock of the Company and the preferred stock of its wholly-owned subsidiary, Lakeland Trust, began trading on The Nasdaq Stock Market under the symbols LKFN and LKFNP.

At the annual meeting of shareholders on April 14, 1998, the shareholders approved the Lakeland Financial Corporation 1997 Share Incentive Plan. This plan reserves 600,000 shares of common stock (split adjusted) for which incentive share options and non-qualified share options may be granted to directors and employees of the Company and its subsidiaries.

On April 30, 1998, the 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" on page 7 in the 2000 Annual Report to Shareholders and is incorporated herein by reference.

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" on pages 28 - 31 in the 2000 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk appear under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 28 - 31 in the 2000 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements appear in the 2000 Annual Report to Shareholders and are incorporated herein by reference.

Consolidated Balance Sheets at December 31, 2000 and 1999.
Consolidated Statements of Income for the years ended December 31, 2000, 1999 and 1998.
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998. Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998. 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 definitive Proxy Statement dated March 14, 2001, is incorporated herein by reference in response to this item.

Section 16(a) of the Securities Exchange Act of 1934 requires that our executive officers, directors and persons who own more than 10% of our common stock file reports of ownership and change in ownership with the Securities and Exchange Commission. They are also required to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms, and, if appropriate, representations made to us by any reporting person concerning whether a Form 5 was required to be filed for 2000, we are not aware that any of our directors, executive officers or 10% shareholders failed to comply with the filing requirements of Section 16(a) during 2000.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing in the definitive Proxy Statement dated March 14, 2001, is incorporated herein by reference in response to this item. The sections in the Proxy Statement marked "Report of the Compensation Committee on Executive Compensation" and "Stock Price Performance" are furnished for the information of the Commission and are not deemed to be "filed" as part of the Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing in the definitive Proxy Statement dated March 14, 2001, is incorporated herein by reference in response to this item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing in the definitive Proxy Statement dated March 14, 2001, 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 appear in the 2000 Annual Report to Shareholders 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	2000 Annual Report
Consolidated Balance Sheets at December 31, 2000 and 1999.		9
Consolidated Statements of Income for the years ended December 31, 2000, 1999 and 1998.		10
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998.		11
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998.		12
Notes to Consolidated Financial Statements.		13-26
Report of Independent Auditors.		27

(2) Financial Statement Schedules.

N/A

(3) Schedule of Exhibits.

The Exhibit Index, which immediately follows the signature pages to this Form 10-K is incorporated by reference.

(b) Reports on Form 8-K.

The Company did notfile any Current Reports on Form 8-K during the fourth quarter of 2000.

(c) Exhibits.

The exhibits required to be filed with this Form 10-K are included with this Form 10-K and are located immediately following the Exhibit Index to this Form 10-K.

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 13, 2001 By /s/R. Douglas Grant
(R. Douglas Grant) Chairman

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 13, 2001 /s/Michael L. Kubacki
(Michael L. Kubacki) Principal Executive Officer and Director

Date: March 13, 2001 /s/David M. Findlay
(David M. Findlay) Principal Financial Officer

Date: March 13,2001 /s/Teresa A. Bartman
(Teresa A. Bartman) Principal Accounting Officer

Date: March 13, 2001 /s/R. Douglas Grant
(R. Douglas Grant) Director

Date: March 13, 2001 ______________________________
(Eddie Creighton) Director

Date: March 13, 2001 /s/Anna K. Duffin
(Anna K. Duffin) Director

Date: March 13, 2001 /s/L. Craig Fulmer
(L. Craig Fulmer) Director

Date: March 13, 2001 ______________________________
(Jerry L. Helvey) Director

Date: March 13, 2001	/s/Allan J. Ludwig (Allan J. Ludwig) Director
Date: March 13, 2001	/s/Charles E. Niemier (Charles E. Niemier) Director
Date: March 13, 2001	/s/D. Jean Northenor (D. Jean Northenor) Director
Date: March 13, 2001	/s/Richard L. Pletcher (Richard L. Pletcher) Director
Date: March 13, 2001	/s/Steven D. Ross (Steven D. Ross) Director
Date: March 13, 2001	/s/Terry L. Tucker (Terry L. Tucker) Director
Date: March 13, 2001	/s/M. Scott Welch (M. Scott Welch) Director
Date: March 13, 2001	/s/G.L. White (G.L. White) Director

LAKELAND FINANCIAL CORPORATION
EXHIBIT INDEX
TO
ANNUAL REPORT ON FORM 10-K

Exhibit No.	Description	Incorporated Herein by Reference to	Filed Herewith
3.1	Amended and Restated Articles of Incorporation of Lakeland Financial Corporation	Exhibit 4.1 to the Company's Form S-8 filed on April 15, 1998	
3.2	Bylaws of Lakeland Financial Corporation	Exhibit 3(ii) to the Company's Form 10-Q for the quarter ended June 30, 1996	
13	Annual Report to Shareholders		X
10.1	Lakeland Financial Corporation 1997 Share Incentive Plan	Exhibit 4.3 to the Company's Form S-8 filed on April 15, 1998	
21	Subsidiaries		X
4.1	Specimen Stock Certificate of Lakeland Financial Corporation		X
10.2	Lakeland Financial Corporation 401(k) Plan	Exhibit 10.1 to the Company's Form S-8 Filed on October 23,2000	
10.3	Form of Change of Control Agreements entered into with Michael L. Kubacki, Charles D. Smith, Walter L. Weldy and Robert C. Condon		X
23	Consent of Crowe, Chizek and Company LLP		X
99	Proxy Statement (as incorporated by reference into this Form 10-K)	Incorporated by reference from Schedule 14A filed by the Company on March 12, 2001	

EXHIBIT 13

2000 Report to Shareholders with Report of Independent Auditors.

EXHIBIT 21

Subsidiaries

1. Lake City Bank, Warsaw, Indiana, a banking corporation organized under the laws of the State of Indiana.

2. Lakeland Capital Trust, a statutory business trust formed under Delaware law.

3. LCB Investments Limited, a subsidiary of Lake City Bank formed under the laws of Bermuda to manage a portion of the Bank's investment portfolio.

Annual Meeting

The annual meeting of the shareholders of Lakeland Financial Corporation will be held at noon, April 10, 2001, at the Shrine Building, Kosciusko County Fair Grounds, Warsaw, Indiana. As of December 31, 2000, there were approximately 1,900 shareholders.

Special Notice: Form 10-K Available

The Company will provide without charge to each shareholder its Annual Report on Form 10-K, including any financial statements and schedules that are required to be filed with the Securities and Exchange Commission for the Company's most recent fiscal year. Written request should be sent to Lakeland Financial Corporation, Attn: 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 are market makers in Lakeland Financial Corporation stock:

Stifel, Nicolaus & Company, Inc., 500 North Broadway, St. Louis, Missouri, 63102
Raymond James & Associates, Inc., P.O. Box 130, Elkhart, Indiana, 46515
McDonald Investments, Inc., 214 South Main Street, Elkhart, Indiana, 46516
First Tennessee Capital Markets, 500 West Madison Street, Suite 2940, Chicago, Illinois, 60661

As of August 25, 1997, the Company's common stock and the preferred stock of its wholly-owned subsidiary, Lakeland Capital Trust, began trading on The Nasdaq Stock MarketSM (Nasdaq) under the symbols LKFN and LKFNP. Nasdaq is a highly-regulated electronic securities market comprised of competing market makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting, and order execution systems. This market also provides specialized automation services for screen-based negotiations of transactions, on-line comparison of transactions, and a range of informational services tailored to the needs of the securities industry, investors and issuers. Nasdaq is operated by The Nasdaq Stock Market, Inc., a wholly-owned subsidiary of the National Association of Securities Dealers, Inc. The high and low prices for 1999 and 2000, which appear in the report were obtained from The Nasdaq Stock Market.

Forward-Looking Statements

When used in this report and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market area and competition, all or some of which could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

The Company wishes to caution readers not to place undo reliance on any such forward-looking statements, which speak only as of the date made, and advise readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

President's Letter

We are pleased to report on your Company's progress in 2000. Net income of $9.3 million is an increase of 12% versus 1999 and represents our thirteenth consecutive year of record earnings. We continued to successfully grow our commercial loan portfolio by adding quality new business relationships and expanding existing relationships. On the deposit side of the business, we made a special effort to grow core product areas such as checking and Investor's Weekly. Overall, total deposits increased 13% in 2000 to $845 million. Our trust and brokerage areas enjoyed a 23% increase in total fees versus 1999 and grew to $2.1 million. Finally, through leveraging our technology platform and tightly managing direct expenses, we were able to achieve these results while growing expenses by only 1%.

The Commercial Banking Division had an excellent year of growth by continuing the tradition of specialized service to our business partners. Commercial loan outstandings increased to $489 million at year-end compared to $422 million in 1999. With over 400 combined years of experience, our team of 25 banking officers provides the necessary expertise, personalized service and understanding of the business trends in our market areas.

The goal of the Commercial Banking Division's cash management group is to provide services to customers that are equal in quality to our larger competitors with the attention to detail and hands-on customer service that is a hallmark of Lake City Bank. Our increased capabilities in the area of cash management have contributed to our success on the commercial front. An additional 48 customers were added to our Sweep to Investment product over the year and lockbox services were sold to 4 new clients. By far, our largest increase in service provided was in the area of electronic transactions. These transactions include direct deposit of payroll and direct payment collection for our customers. We offer many options in this area to accommodate business clients of all sizes. Our flexibility has paid off as we have seen an increase of 340,000 electronic transactions over last year, an increase of 35%.

Higher interest rates in 2000 reduced home sales and housing starts and diminished mortgage refinancing. Nevertheless, the gain on the sale of mortgage loans totaled over $504,000 in 2000. The Mortgage Division expanded product offerings during the year, adding secondary markets for jumbo fixed rate loans and streamlining FHA/VA lending for affordable housing. The focus of the Consumer Lending Division has shifted from indirect auto lending to the home equity line of credit. This product continues to be the area of consumer lending experiencing the greatest growth, with outstanding balances increasing 24% in 2000. The home equity line of credit is secured by a mortgage on the borrower's residence, so the low interest rate and potential tax deductibility makes this attractive to our customers. Historically low levels of delinquency and loss, as well as variable rates and low servicing costs, make this an excellent product for your Company.

As noted earlier, the Trust and Investment Management Division, consisting of personal trust, investment management, brokerage, retirement services and corporate trust experienced strong growth in 2000. Assets under administration were more than $800 million by the end of the year. With our clients' interests in mind, we have formed an alliance with Wright Investors' Service. We believe that they are one of the premier professional investment management organizations in the country with extensive databases, research capabilities and economic forecasting expertise. This partnership should provide our managers with the complete and current information they need to be certain that our clients are receiving the best investment assistance. Our transition to new, more powerful and efficient personal trust and corporate trust systems should provide our clients with the latest in technological innovation, including on-line access to their account information.

Banking via the Internet is growing with personal and small business accounts numbering nearly 3,000. Internet customers enjoy the ease and convenience of access to their accounts from their home or office. Bill payment, offered in early 2001, has kept the emphasis on customer service with advanced technology. We are developing a new corporate internet banking product called CommercialLink. It provides multi-level security for customers to view comprehensive account summary and details, deposit transactions history, funds transfer, stop payments and wire transfer requests. Telephone banking customers continue to increase with over 8,000 customers enjoying the ease and convenience of accessing accounts either through the automated system, with nearly 500,000 calls received, or by speaking to customer service representatives who answered over 62,000 calls this year. With the variety of options available to our customers, we continue to provide options and enhance "Banking Like It Ought To Be".

Prospero, Spanish for prosperity, was introduced to assist our Latino neighbors as they integrate into the community. On-site seminars at various companies are designed to assist Latino employees in establishing banking accounts, developing good credit and acquiring knowledge in purchasing property. In addition, the program is designed to help the Company stabilize it's workforce.

Young Adult Checking was introduced and has been a good addition to the LCB product mix. We opened over 1,000 new accounts and have the opportunity for additional banking relationships with this young segment of the population. Money Market Checking was enhanced to include personal overnight investments. The Direct Deposit Checking Account is a cost effective way for people to have banking services and is meeting the needs of a large segment of our market area by providing the option for free checking with the electronic deposit of pension or payroll receipts.

During the year 2000, employees saw many positive benefit changes. The Lake City Bank 401(k) plan was changed from a balance forward plan to a daily valuation plan, offering employees access to their 401(k) accounts daily through the Internet, as well as through a telephone voice response system. Employees are given eight different investment options, with the ability to trade daily. The vesting schedule also changed from a seven-year to a six-year vesting schedule. Group Term Life and Accidental Death/Dismemberment Insurance was enhanced to reflect coverage equal to two times an employee's annual salary. Also, the health insurance plan was updated to include a prescription card plan, as well as to offer basic dental and vision plans.

Lake City University (LCU) began in 2000. LCU exists to unify all training activities and provide a way for employees to keep their job knowledge fresh and develop their banking career. Over 14,000 contact hours were offered in all areas of banking including customer service, commercial and consumer lending, business development, PC and technical skills, leadership and supervision, compliance, communication, interpersonal relationships, and train-the-trainer. Monthly customer service representative meetings and quarterly corporate training for all employees kept everyone informed about new ventures in the world of banking. LCU staff also assisted employees in accessing hundreds of hours of external training in seminars, conferences, and specialized classes. Conversational Spanish for Bankers, a ten-week course taught by a local Spanish-speaking instructor, allowed many of our employees to learn the basics of the language that would assist them as they opened new accounts and answered banking questions for our Latino customers.

Executive Vice President D. Jean Northenor retired from active service on February 9, 2001. She subsequently joined the Bank's Board of Directors as well as the Board of Lakeland Financial Corporation. In her 17 years of service, she has been a very important part of our management team and we will miss her day-to-day presence. At the same time, we will certainly benefit from her counsel in her new role as a Director.

David M. Findlay joined your Company as Executive Vice President and Chief Financial Officer. He has over 16 years experience in the financial sector, most recently serving as Chief Financial Officer and Treasurer of Mishawaka, Indiana based Quality Dining. His prior experience included various positions with Chicago based Northern Trust Company. Findlay, a native of Elkhart, Indiana is a graduate of DePauw University.

Steven D. Ross, President of Bertsch Services, was elected to the Board of Directors of both Lake City Bank and Lakeland Financial Corporation. Ross is a graduate of Ball State University. An active community leader, he serves as a board member of the Indiana Chamber of Commerce, is President of the Indiana Vending Council and serves on many local boards and commissions. He is a valuable addition to your Board.

Senior Management promotions since the beginning of 2000 include Charles D. Smith and Kevin L. Deardorff to Executive Vice President in the Commercial and Retail Banking Divisions, respectively. Promoted to Senior Vice President were Jill A. DeBatty - Human Resources, Thomas P. Frantz - Retail Lending, Michael E. Gavin and Harold A. "Rocky" Meyer - Commercial Lending. These 6 senior officers represent over 130 years of financial experience and are some of your Company's most valuable resources.

The Fort Wayne Southwest office opened in October. We have been well accepted in that market area. Other areas of current expansion include a third Fort Wayne office located on the Northeast side of town and a third South Bend office that will open in late spring. We will continue to be proactive in pursuing expansion opportunities in areas where we believe we can grow profitably.

Connecting on a personal level remains a constant with our offices. We hosted many events including a cooperative effort with Bethel College on a series of seminars. The popular Egg Breakfast, co-hosted with Creighton Brothers celebrated its 30th year. Business and Agricultural seminars and a 401(k) informational meeting were of benefit to our customers in providing needed information to keep current in the ever-changing marketplace. We celebrate February birthdays and anniversaries at Grace Village in Winona Lake and enjoy a Spring Celebration at Hubbard Hill in Elkhart. Our lives are enriched during those times as the residents warmly welcome us into their homes.

Overall, we overcame many obstacles during 2000, including the slow mortgage market, narrowing interest margins and softening economic conditions in several of our markets. Your Company's committed team rose to every occasion and achieved a very solid performance in 2000. We enter 2001 confronted with many of these same issues. As we begin the year, there are continuing signs of economic weakness that could lead to asset quality and balance sheet growth challenges. While we intend to maintain our focus on commercial loan growth, we will not compromise our historical credit standards. The competition for customer's deposits and recent interest rate movements have placed continued pressure on our net interest margin. Nonetheless, we intend to provide the highest quality service to our customers, to market ourselves aggressively, and to grow our earnings consistently over the long term.

I would like to thank shareholders, customers and employees for your support. Lake City Bank is a very special institution, and I look forward to working with all of you to further extend its success.

Michael L. Kubacki
President & CEO

Lakeland Financial Corporation and Lake City Bank Board of Directors

Eddie Creighton
Former Partner and General Manager, Creighton Brothers

Anna K. Duffin
Civic Leader

L. Craig Fulmer
Chairman, Heritage Financial Group, Inc.

R. Douglas Grant
Chairman, Lakeland Financial Corporation and Lake City Bank

Jerry L. Helvey
President, Helvey & Associates, Inc.

Michael L. Kubacki
President, Lakeland Financial Corporation and Lake City Bank

Allan J. Ludwig
Industrial Developer

Charles E. Niemier
Senior Vice President, Biomet, Inc.

D. Jean Northenor
Former Executive Vice President, Lake City Bank

Richard L. Pletcher
President, Pletcher Enterprises, Inc.

Steven D. Ross
President, Bertsch Services

Terry L. Tucker
President, Maple Leaf Farms, Inc.

M. Scott Welch
Chief Executive Officer, Welch Packaging Group

G.L. White
Former President, United Telephone Company of Indiana

LAKELAND FINANCIAL CORPORATION OFFICERS

R. Douglas Grant	Chairman
Michael L. Kubacki	President and Chief Executive Officer
Robert C. Condon	Executive Vice President
Kevin L. Deardorff	Executive Vice President
David M. Findlay	Executive Vice President and Secretary
Charles D. Smith	Executive Vice President
Walter L. Weldy	Executive Vice President
Teresa A. Bartman	Vice President and Controller
James J. Nowak	Vice President and Treasurer

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

	2000	1999	1998	1997	1996
Interest income	$ 80,050	$ 69,395	$ 63,667	$ 52,699	$ 45,941
Interest expense	45,001	37,093	36,091	28,060	23,737
Net interest income	35,049	32,302	27,576	24,639	22,204
Provision for loan losses	1,206	1,310	480	269	120
Net interest income after provision for loan losses	33,843	30,992	27,096	24,370	22,084
Other noninterest income	9,866	9,311	8,486	6,978	5,396
Net gains on sale of real estate mortgages held for sale	504	1,302	1,467	545	412
Net securities gains (losses)	0	1,340	1,256	(19)	(9)
Noninterest expense	(30,775)	(30,541)	(26,491)	(20,414)	(17,935)
Income before income tax expense	13,438	12,404	11,814	11,460	9,948
Income tax expense	4,116	4,085	3,926	3,920	3,504
Net income	$ 9,322	$ 8,319	$ 7,888	$ 7,540	$ 6,444
Average shares outstanding*	5,813,984	5,813,984	5,813,984	5,813,162	5,792,825
Basic earnings per common share*	$ 1.60	$ 1.43	$ 1.36	$ 1.30	$ 1.11
Diluted earnings per common share*	$ 1.60	$ 1.43	$ 1.36	$ 1.30	$ 1.11
Cash dividends declared*	$ 0.52	$ 0.44	$ 0.33	$ 0.30	$ 0.23
Balances at December 31:					
Total assets	$ 1,149,157	$ 1,039,843	$ 978,909	$ 796,478	$ 656,551
Total deposits	$ 845,329	$ 748,243	$ 739,347	$ 612,992	$ 496,553
Total short-term borrowings	$ 200,078	$ 195,374	$ 135,690	$ 84,117	$ 88,380
Long-term borrowings	$ 11,433	$ 16,473	$ 21,386	$ 25,367	$ 23,531
Guaranteed preferred beneficial interests in Company's subordinated debentures	$ 19,291	$ 19,264	$ 19,238	$ 19,211	$ 0
Total stockholders' equity	$ 64,973	$ 54,194	$ 55,156	$ 48,256	$ 42,043

* Adjusted for 2-for-1 stock splits on April 30, 1996 and April 30, 1998.

Stock and Dividend Information

	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
2000				
Trading range (per share)*				
Low	$ 10.56	$ 10.31	$ 11.25	$ 12.69
High	$ 13.13	$ 14.00	$ 14.38	$ 17.88
Dividends declared (per share)	$ 0.13	$ 0.13	$ 0.13	$ 0.13
1999				
Trading range (per share)*				
Low	$ 13.75	$ 16.00	$ 17.06	$ 17.75
High	$ 18.00	$ 19.88	$ 18.50	$ 19.88
Dividends declared (per share)	$ 0.11	$ 0.11	$ 0.11	$ 0.11

* The trading ranges are the high and low as obtained from the Nasdaq Stock Market.

Consolidated Balance Sheets (in thousands except share data)

December 31	2000	1999
ASSETS		
Cash and due from banks	$ 84,682	$ 59,321
Short-term investments	4,311	3,783
Total cash and cash equivalents	88,993	63,104
Securities available for sale (carried at fair value)	293,608	271,421
Real estate mortgages held for sale	183	862
Total loans	718,876	653,898
Less allowance for loan losses	7,124	6,522
Net loans	711,752	647,376
Land, premises and equipment, net	27,297	27,808
Accrued income receivable	6,744	5,420
Intangible assets	9,624	10,522
Other assets	10,956	13,330
Total assets	1,149,157	$ 1,039,843
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	$ 164,606	$ 136,595
Interest bearing deposits	680,723	611,648
Total deposits	845,329	748,243
Short-term borrowings		
Federal funds purchased	8,250	15,000
Securities sold under agreements to repurchase	138,154	121,374
U.S. Treasury demand notes	3,674	4,000
Other short-term borrowings	50,000	55,000
Total short-term borrowings	200,078	195,374
Accrued expenses payable	6,684	4,760
Other liabilities	1,369	1,535
Long-term borrowings	11,433	16,473
Guaranteed preferred beneficial interests in Company's subordinated debentures	19,291	19,264
Total liabilities	1,084,184	985,649
Commitments, off-balance sheet risks and contingencies		
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value, 5,813,984 shares issued, 5,784,105 outstanding as of December 31, 2000; 5,813,984 shares issued, 5,792,182 outstanding as of December 31, 1999	1,453	1,453
Additional paid-in capital	8,537	8,537
Retained earnings	55,734	49,422
Accumulated other comprehensive income (loss)	(207)	(4,797)
Treasury stock, at cost (2000 - 29,879 shares, 1999 - 21,802 shares)	(544)	(421)
Total stockholders' equity	64,973	54,194
Total liabilities and stockholders' equity	$ 1,149,157	$ 1,039,843

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

Consolidated Statements of Income (in thousands except share data)

Year Ended December 31	2000	1999	1998
NET INTEREST INCOME			
Interest and fees on loans			
Taxable	$ 61,554	$ 51,602	$ 44,225
Tax-exempt	142	182	194
Interest and dividends on securities			
Taxable	16,150	14,888	16,416
Tax-exempt	1,782	2,448	2,313
Interest on short-term investments	422	275	519
Total interest income	80,050	69,395	63,667
Interest on deposits	32,395	27,153	28,154
Interest on borrowings			
Short-term	10,083	7,139	4,724
Long-term	2,523	2,801	3,213
Total interest expense	45,001	37,093	36,091
NET INTEREST INCOME	35,049	32,302	27,576
Provision for loan losses	1,206	1,310	480
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	33,843	30,992	27,096
NONINTEREST INCOME			
Trust and brokerage income	2,133	1,732	1,629
Service charges on deposits	4,423	4,321	4,004
Other income	3,310	3,258	2,853
Net gains on the sale of real estate mortgages held for sale	504	1,302	1,467
Net securities gains	0	1,340	1,256
Total noninterest income	10,370	11,953	11,209
NONINTEREST EXPENSE			
Salaries and employee benefits	15,927	15,911	14,076
Net occupancy expense	2,095	2,148	1,866
Equipment costs	2,991	3,167	2,205
Other expense	9,762	9,315	8,344
Total noninterest expense	30,775	30,541	26,491
INCOME BEFORE INCOME TAX EXPENSE	13,438	12,404	11,814
Income tax expense	4,116	4,085	3,926
NET INCOME	$ 9,322	$ 8,319	$ 7,888
AVERAGE COMMON SHARES OUTSTANDING	5,813,984	5,813,984	5,813,984
BASIC EARNINGS PER COMMON SHARE	$ 1.60	$ 1.43	$ 1.36
DILUTED EARNINGS PER COMMON SHARE	$ 1.60	$ 1.43	$ 1.36

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

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

Year Ended December 31	2000		1999		1998	
COMMON STOCK						
Balance at beginning of the period	$ 1,453		$ 1,453		$ 1,453	
Balance at end of the period	1,453		1,453		1,453	
ADDITIONAL PAID-IN CAPITAL						
Balance at beginning of the period	8,537		8,537		8,537	
Balance at end of the period	8,537		8,537		8,537	
RETAINED EARNINGS						
Balance at beginning of the period	49,422		43,652		37,766	
Net income	9,322	$ 9,322	8,319	$ 8,319	7,888	$ 7,888
Cash dividends declared per share ($.52, $.44 and $.33)	(3,010)		(2,549)		(2,002)	
Balance at end of the period	55,734		49,422		43,652	
ACCUMULATED OTHER COMPREHENSIVE INCOME						
Balance at beginning of the period	(4,797)		1,848		685	
Unrealized gain (loss) on available for sale securities arising during the period	4,590		(5,836)		(573)	
Reclassification adjustments for accumulated (gains) losses included in net income	0		(809)		(759)	
Cumulative effect of adopting SFAS No. 133	0		0		2,495	
Other comprehensive income (loss) (net of taxes $3,011, $(4,359) and $762)	4,590	4,590	(6,645)	(6,645)	1,163	1,163
Balance at end of the period	(207)		(4,797)		1,848	
Total comprehensive income		$ 13,912		$ 1,674		$ 9,051
TREASURY STOCK						
Balance at beginning of the period	(421)		(334)		(185)	
Acquisition of treasury stock	(123)		(87)		(149)	
Balance at end of the period	(544)		(421)		(334)	
TOTAL STOCKHOLDERS' EQUITY	$ 64,973		$ 54,194		$ 55,156	

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

Consolidated Statements of Cash Flows (in thousands)

Year Ended December 31	2000	1999	1998
Cash flows from operating activities:			
Net income	$ 9,322	$ 8,319	$ 7,888
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	2,429	2,373	1,782
Provision for loan losses	1,206	1,310	480
Pension plan curtailment gain	(500)	0	0
Amortization of intangible assets	925	957	942
Amortization of loan servicing rights	233	265	171
Loans originated for sale	(21,430)	(79,276)	(65,425)
Net gain on sale of loans	(504)	(1,302)	(1,467)
Proceeds from sale of loans	22,420	82,796	64,612
Net (gain) loss on sale of premises and equipment	0	26	(40)
Net gain on sale of securities available for sale	0	(1,340)	(1,257)
Net loss on calls of securities held to maturity	0	0	1
Net securities amortization	970	1,935	1,379
Increase (decrease) in taxes payable	(491)	1,078	(1,207)
(Increase) decrease in income receivable	(1,324)	249	(754)
Increase (decrease) in accrued expenses payable	2,275	(14)	862
Increase in other assets	(153)	(1,789)	(1,940)
Increase (decrease) in other liabilities	(166)	(54)	62
Total adjustments	5,890	7,214	(1,799)
Net cash from operating activities	15,212	15,533	6,089
Cash flows from investing activities:			
Proceeds from sale of securities available for sale	0	44,428	65,404
Proceeds from maturities, calls and principal paydowns of securities held to maturity	0	0	45,787
Proceeds from maturities, calls and principal paydowns of securities available for sale	38,750	65,695	32,980
Purchases of securities available for sale	(54,306)	(65,485)	(89,948)
Purchases of securities held to maturity	0	0	(131,919)
Net increase in total loans	(65,582)	(115,885)	(80,809)
Proceeds from sales of land, premises and equipment	436	82	530
Purchases of land, premises and equipment	(2,354)	(3,919)	(3,950)
Net proceeds (payments) from acquisitions	0	0	30,020
Net cash from investing activities	(83,056)	(75,084)	(131,905)
Cash flows from financing activities:			
Net increase in total deposits	97,086	8,896	92,034
Proceeds from short-term borrowings	24,058,107	21,877,999	4,740,920
Payments on short-term borrowings	(24,053,403)	(21,818,315)	(4,689,347)
Proceeds from long-term borrowings	0	5,124	20,050
Payments on long-term borrowings	(5,040)	(10,037)	(24,031)
Dividends paid	(2,894)	(2,433)	(1,915)
Purchase of treasury stock	(123)	(87)	(149)
Net cash from financing activities	93,733	61,147	137,562
Net increase in cash and cash equivalents	25,889	1,596	11,746
Cash and cash equivalents at beginning of the year	63,104	61,508	49,762
Cash and cash equivalents at end of year	$ 88,993	$ 63,104	$ 61,508
Cash paid during the year for:			
Interest	$ 43,351	$ 37,459	$ 35,228
Income taxes	$ 4,605	$ 4,139	$ 3,610
Securities transferred from held to maturity to available for sale	$ 0	$ 0	$ 249,087
Loans transferred to other real estate	$ 0	$ 185	$ 683

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Nature of Operations and Principles of Consolidation:

The consolidated financial statements include Lakeland Financial Corporation and its wholly-owned subsidiaries, Lake City Bank and Lakeland Capital Trust, together referred to as the "Company". Also included in the consolidated financial statements is LCB Investments Limited, a wholly-owned subsidiary of Lake City Bank. All intercompany transactions and balances are eliminated in consolidation.

The Company provides financial services through its subsidiary, Lake City Bank (the Bank), a full-service commercial bank with 43 branch offices in fifteen counties in northern Indiana. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential commercial, consumer loans and mortgage. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are generally expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Other financial instruments, which potentially represent concentrations of credit risk, include deposit accounts in other financial institutions.

Use of Estimates:

To prepare financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, the fair values of financial instruments, and the fair value of mortgage servicing rights are particularly subject to change.

Cash Flows:

Cash and cash equivalents includes cash, demand deposits in other financial institutions and short-term investments with maturities of 90 days or less. Cash flows are reported net for customer loan and deposit transactions.

Securities:

Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss). Trading securities are bought for sale in the near term and are carried at fair value, with changes in unrealized holding gains and losses included in income. Federal Home Loan Bank Stock is carried at cost in other assets. Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity.

The Company adopted SFAS No. 133 as of October 1, 1998. As permitted in SFAS No. 133, on October 1, 1998, the Company transferred securities with an amortized cost of $249,087,000 and a fair value of $253,218,000 from the held to maturity portfolio to the available for sale portfolio. None of these securities were sold during the fourth quarter of 1998. The Company does not have any derivative instruments nor does the Company have any hedging activities.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary.

Loans:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Loans held for sale are reported at the lower of cost or market, on an aggregate basis.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt and the loan is placed on non-accrual. All unpaid accrued interest is reversed and interest income is subsequently recorded only to the extent cash payments are received. Accrual status is resumed when all contractually due payments are brought current and future payments are reasonably assured.

Allowance for Loan Losses:

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision, as more information becomes available or as future events change. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Foreclosed Assets:

Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Land, Premises and Equipment:

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on both straight-line and accelerated methods over the useful lives of the assets. Long-term assets are reviewed for impairment when events indicate the carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at discounted amounts.

Loan Servicing Rights:

Loan servicing rights are recognized as assets for the allocated value of retained servicing rights on loans sold. Loan servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and secondarily, as to geographic and prepayment characteristics. Any impairment of a

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

grouping is reported as a valuation allowance. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions.

Intangibles:

Purchased intangible assets, primarily goodwill and core deposit value, are recorded at cost and amortized over the estimated life. Goodwill amortization is straight-line over 15 years, and core deposit amortization is accelerated over 12 years. Goodwill is reported net of accumulated amortization of $1,997,000 and $1,330,000 at year end 2000 and 1999, respectively. Core deposits are reported net of accumulated amortization of $792,000 and $561,000.

Repurchase Agreements:

Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Benefit Plans:

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. Effective April 1, 2000, the defined benefit pension plan was frozen. The Company maintains a directors' deferred compensation plan. At inception, a participant can elect to receive interest based on the Company's investment in either Company stock or a certificate of deposit for their contribution. For participants electing Company stock, the Company acquires shares on the open market and records such shares as treasury stock.

Stock Compensation:

At the inception of the Lakeland Financial Corporation Stock Option Plan, there were 600,000 shares of common stock reserved for grants of stock options to employees of Lakeland Financial Corporation, its subsidiaries and Board of Directors. As of December 31, 2000, 454,770 options had been granted and 145,230 were available for future grants. These are accounted for under APB No. 25. Employee compensation expenses under stock option plans is reported if options are granted below market price at grant date. The Company has not made any such grants. Pro forma disclosures of net income and earnings per share are shown using the fair value method to measure expense for options granted using an option pricing model to estimate fair value.

Income Taxes:

An annual consolidated federal income tax return is filed by the Company. Income tax expense is recorded based on the amount of taxes due on its tax return plus deferred taxes computed based upon the expected future tax consequences of temporary differences between carrying amounts and tax bases of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Financial Instruments:

Financial instruments include credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Earnings Per Common Share:

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements. The common shares outstanding for the Stockholders' Equity section of the Balance Sheet for 2000 and 1999 reflect the acquisition of 29,879 and 21,802 shares, respectively of Lakeland Financial Corporation common stock that have been purchased under the directors' deferred compensation plan described above. Because these shares are held in trust for the participants, they are treated as outstanding when computing the weighted-average common shares outstanding for the calculation of both basic and diluted earnings per share.

Comprehensive Income:

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale during the year, which are also recognized as separate components of equity.

Loss Contingencies:

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash:

The Company was required to have $50,000 of cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at both year-ends 2000 and 1999. These balances do not earn interest.

Dividend Restriction:

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to its shareholders.

Fair Value of Financial Instruments:

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Derivatives:

All derivative instruments are recorded at their fair values. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedge and the hedged item are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of hedges are reflected in income currently. For all periods presented, there were no derivative instruments.

Industry Segments:

Internal financial information is primarily reported and aggregated as a single segment known as banking.

Reclassifications:

Certain amounts appearing in the financial statements and notes thereto for prior periods have been reclassified to conform with the current presentation. The reclassifications had no effect on net income or stockholders' equity as previously reported.

NOTE 2 - SECURITIES

Information related to the fair value of securities and the total gains and losses for securities with net gains and losses in accumulated other comprehensive income (loss) at December 31 is provided in the table below.

	Fair Value	Gains	Losses
	(in thousands)		
Securities available for sale at December 31, 2000:			
U.S. Treasury securities	$ 38,066	$ 212	$ (183)
U.S. Government agencies	6,550	0	(122)
Mortgage-backed securities	207,594	1,809	(1,714)
State and municipal securities	35,430	214	(200)
Other debt securities	5,968	9	(368)
Total securities available for sale at December 31, 2000	$ 293,608	$ 2,244	$ (2,587)
Securities available for sale at December 31, 1999:			
U.S. Treasury securities	$ 34,614	$ 60	$ (579)
U.S. Government agencies	6,313	0	(380)
Mortgage-backed securities	192,569	51	(3,727)
State and municipal securities	32,714	37	(2,755)
Other debt securities	5,211	0	(651)
Total securities available for sale at December 31, 1999	$ 271,421	$ 148	$ (8,092)

Information regarding the fair value of available for sale debt securities by maturity as of December 31, 2000, 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.

	Fair Value
	(in thousands)
Due in one year or less	$ 30,173
Due after one year through five years	18,018
Due after five years through ten years	2,091
Due after ten years	35,732
Total contractual maturity securities	86,014
Mortgage-backed securities	207,594
Total debt securities	$ 293,608

Security proceeds, gross gains and gross losses for 2000, 1999 and 1998 were as follows:

	2000	1999	1998
	(in thousands)		

Sales and calls of securities available for sale:			
Proceeds	$ 807	$ 46,350	$ 66,197
Gross gains	0	1,340	1,257
Gross losses	0	0	0
Calls of securities held to maturity:			
Proceeds	$ 0	$ 0	$ 1,532
Gross gains	0	0	0
Gross losses	0	0	1

NOTE 2 - SECURITIES (continued)

Securities with carrying values of $282,955,000 and $264,847,000 were pledged as of December 31, 2000 and 1999, as collateral for deposits of public funds, securities sold under agreements to repurchase, borrowings from the FHLB and for other purposes as permitted or required by law.

NOTE 3 - LOANS

Total loans outstanding as of year-end consisted of the following:

	2000	1999
	(in thousands)	
Commercial and industrial loans	$ 440,941	$ 375,421
Agri-business and agricultural loans	48,558	46,661
Real estate mortgage loans	49,104	42,384
Real estate construction loans	3,627	4,488
Installment loans and credit cards	176,646	184,944
Total loans	$ 718,876	$ 653,898

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

The following is an analysis of the allowance for loan losses for 2000, 1999 and 1998:

	2000	1999	1998
	(in thousands)		
Balance, January 1	$ 6,522	$ 5,510	$ 5,308
Provision for loan losses	1,206	1,310	480
Loans charged-off	748	435	416
Recoveries	144	137	138
Net loans charged-off	604	298	278
Balance, December 31	$ 7,124	$ 6,522	$ 5,510

Nonaccrual loans at December 31, 2000, 1999 and 1998, totaled $206,000, $329,000 and $0. Interest not recorded on nonaccrual loans was approximately $24,000, $26,000 and $42,000 for 2000, 1999 and 1998, respectively. Loans renegotiated as troubled debt restructuring totaled $1,127,000 and $1,179,000 as of December 31, 2000 and 1999, respectively. Interest income of $106,000, $95,000 and $84,000 was recognized in 2000, 1999 and 1998, respectively. Had these loans been performing under the original contract terms, an additional $17,000 would have been reflected in interest income during 2000, $22,000 in 1999 and $47,000 in 1998. The Company is not committed to lend additional funds to debtors whose loans have been modified. At December 31, 2000 the Company had one loan of $1.4 million meeting the definition of impaired. The Company therefore has allocated $212,000 of the allowance for loan losses to this loan. In 1999, the Company had one loan meeting the definition of impaired totaling $246,000, which was included in the total of nonaccrual loans. At December 31, 1998, the Company had no loans meeting the definition of impaired. One loan was classified as impaired during 1998, but was repaid prior to year-end. Loans past due over 90 days and still accruing interest were $6,791,000 (excluding impaired loans) and $171,000 at year-end 2000 and 1999, respectively. The increase in loans past due 90 days or more and still accruing resulted primarily from the inclusion of two commercial loans totaling $6.2 million, or approximately 90% of the $6.8 million in this category. Of this amount, $1.4 million was paid off subsequent to the end of the fiscal year. A second loan of $4.8 million matured in the fourth quarter of 2000 and has therefore been included in this category. The borrower is current on all interest under the matured facility. The Company has reached an agreement with a bank participant and the borrower to extend the terms of the financing and anticipates that the extension will be completed during the first quarter of 2001.

NOTE 5 - SECONDARY MORTGAGE MARKET ACTIVITIES

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were $150,875,000 and $147,932,000 at December 31, 2000 and 1999, respectively. Net loan servicing income was $147,000, $57,000 and $11,000 for 2000, 1999 and 1998. Information on loan servicing rights follows:

	2000	1999
	(in thousands)	
Beginning of year	$ 1,459	$ 1,008
Originations	193	716
Amortization	(233)	(265)
End of year	$ 1,419	$ 1,459

At year end 2000 and 1999, there was no valuation allowance required.

Notes to Consolidated Financial Statements (continued)

NOTE 6 - LAND, PREMISES AND EQUIPMENT, NET

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

	2000	1999
	(in thousands)	
Land	$ 6,989	$ 6,717
Premises	21,060	19,639
Equipment	13,902	14,551
Total cost	41,951	40,907
Less accumulated depreciation	14,654	13,099
Land, premises and equipment, net	$ 27,297	$ 27,808

NOTE 7 - DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of $100,000, was approximately $180,299,000 and $125,919,000 at December 31, 2000 and 1999, respectively.

At December 31, 2000, the scheduled maturities of time deposits were as follows:

	Amount
	(in thousands)
Maturing in 2001	$ 502,376
Maturing in 2002	37,820
Maturing in 2003	12,117
Maturing in 2004	3,762
Maturing in 2005	3,126
Thereafter	1,048
Total time deposits	$ 560,249

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 Company's trade area. Repo accounts are not covered by federal deposit insurance and are secured by securities owned. Information on these liabilities and the related collateral for 2000 and 1999 is as follows:

	2000	1999
	(in thousands)	
Average balance during the year	$ 121,267	$ 120,950
Average interest rate during the year	5.35%	4.76%
Maximum month-end balance during the year	$ 143,677	$ 143,353
Securities underlying the agreements at year-end		
Amortized cost	$ 184,036	$ 123,388
Fair value	$ 183,492	$ 121,494

			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	$ 118,550	5.25%	$ 0	$ 0	$ 135,791	$ 135,361
1 to 30 days	2,350	5.92	5,323	5,330	377	372
31 to 90 days	5,821	5.90	4,905	4,907	5,210	5,176
Over 90 days	11,433	6.18	27,809	27,829	4,621	4,517
Total	$ 138,154	5.37%	$ 38,037	$ 38,066	$ 145,999	$ 145,426

The Company 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, 2000, there were no material amounts of securities at risk with any one customer. The Company maintains control of these securities through the use of third-party safekeeping arrangements.

NOTE 9 - BORROWINGS

Long-term borrowings at December 31 consisted of:

	2000	1999
	(in thousands)	
Federal Home Loan Bank of Indianapolis Notes, Variable Rate, Due April 28, 2000	$ 0	$ 5,000
Federal Home Loan Bank of Indianapolis Notes, 5.25%, Due December 28, 2001	10,000	10,000
Federal Home Loan Bank of Indianapolis Notes, 6.15%, Due June 24, 2003	1,300	1,300
Federal Home Loan Bank of Indianapolis Notes, 6.15%, Due January 15, 2018	49	49
Capital Leases	84	124
Total	$ 11,433	$ 16,473

All notes require monthly interest payments and were secured by residential real estate loans and securities with a carrying value of $110,952,000 at December 31, 2000. At December 31, 2000, the Company owned $3,567,500 of Federal Home Loan Bank (FHLB) stock, which also secures debts to the FHLB. The capital leases had original terms of approximately three years and require monthly payments.

In addition to the long-term borrowings, the Company has $50 million in variable rate notes with the FHLB at December 31, 2000. These notes mature at various times between April 23, 2001 and June 26, 2001. These notes are classified as short-term borrowings in the financial statements. The Company is authorized to borrow up to $100 million from the FHLB.

NOTE 10 - GUARANTEED PREFERRED BENEFICIAL INTERESTS

In September 1997, Lakeland Capital Trust (Lakeland Trust) completed a public offering of 2 million shares of cumulative trust preferred securities (Preferred Securities) with a liquidation preference of $10 per security. The proceeds of the offering were loaned to the Company in exchange for subordinated debentures with terms similar to the Preferred Securities. The sole assets of Lakeland Trust are the subordinated debentures of the Company and payments thereunder. The subordinated debentures and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of Lakeland Trust under the Preferred Securities. Distributions on the securities are payable quarterly at the annual rate of 9% of the liquidation preference and are included in interest expense in the consolidated financial statements. These securities are considered as Tier I capital (with certain limitations applicable) under current regulatory guidelines. As of December 31, 2000, the outstanding principal balance of the subordinated debentures was $20,619,000. The principal balance of the subordinated debentures less the unamortized issuance costs constitute the guaranteed preferred beneficial interests in the Company's subordinated debentures in the financial statements.

The Preferred Securities are subject to mandatory redemption, in whole or in part, upon repayment of the subordinated debentures at maturity or their earlier redemption at the liquidation preference. Subject to the Company having received prior approval of the Federal Reserve if then required, the subordinated debentures are redeemable prior to the maturity date of September 30, 2027 at the option of the Company on or after September 30, 2002, or upon occurrence of specific events defined within the trust indenture. The Company has the option to defer distributions on the subordinated debentures from time to time for a period not to exceed 20 consecutive quarters.

NOTE 11 - EMPLOYEE BENEFIT PLANS

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

	2000	1999
	(in thousands)	
Change in benefit obligation:		
Beginning benefit obligation	$ 2,639	$ 2,408
Service cost	155	284
Interest cost	186	171
Curtailment	(598)	0
Actuarial gain	(48)	(93)
Benefits paid	(281)	(131)
Ending benefit obligation	2,053	2,639
Change in plan assets (primarily money market funds and equity and fixed income investments), at fair value:		
Beginning plan assets	2,469	1,964
Actual return	387	408
Employer contribution	59	228
Benefits paid	(281	(131)
Ending plan assets	2,634	2,469
Funded status:	581	(170)
Unrecognized net actuarial gain (loss)	(66)	133
Unrecognized prior service cost	0	(22)
Prepaid (accrued) benefit cost	$ 515	$ (59)

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NOTE 11 - EMPLOYEE BENEFIT PLANS (continued)

Net pension expense includes the following:

	2000	1999	1998
	(in thousands)		
Service cost	$ 155	$ 284	$ 190
Interest cost	186	171	144
Expected return on plan assets	(256)	(192)	(133)
Recognized net actuarial (gain) loss	(1)	23	2
Curtailment (gain)loss	(598)	0	0
Net pension expense/(benefit)	$ (514)	$ 286	$ 203

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

	2000	1999	1998
Weighted average discount rate	8.00%	7.50%	6.75%
Rate of increase in future compensation	4.50%	4.50%	4.50%
Expected long-term rate of return	10.00%	10.00%	8.00%

On April 1, 2000, the Lakeland Financial Corporation Pension Plan was frozen. As a result of this curtailment, a gain was recognized in the income statement for the second quarter of 2000. The gain was included in the salaries and employee benefits line of the income statement.

The Company maintains a 401(k) profit sharing plan for all employees meeting age and service requirements. The Company contributions are based upon the rate of return on stockholders' equity as of January 1st of each year. The expense recognized was $499,000, $344,000 and $401,000 in 2000, 1999 and 1998, respectively.

NOTE 12 - OTHER EXPENSE

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

	2000	1999	1998
	(in thousands)		
Data processing fees and supplies	$ 2,078	$ 2,036	$ 1,605
Corporate and business development	761	861	750
Advertising	577	436	422
Office supplies	591	687	488
Telephone and postage	1,241	1,375	1,377
Regulatory fees and FDIC insurance	250	160	138
Amortization of intangible assets	924	957	942
Miscellaneous	3,340	2,803	2,622
Total other expense	$ 9,762	$ 9,315	$ 8,344

NOTE 13 - INCOME TAXES

Income tax expense for the years ended December 31, consisted of the following:

	2000	1999	1998
	(in thousands)		
Current federal	$ 4,249	$ 2,998	$ 2,829
Deferred federal	(300)	120	54
Current state	252	933	982
Deferred state	(85)	34	61
Total income tax expense	$ 4,116	$ 4,085	$ 3,926

Income tax expense included $0, $531,000 and $498,000 applicable to security transactions for 2000, 1999 and 1998. The differences between financial statement tax expense and amounts computed by applying the statutory federal income tax rate of 34% to income before income taxes were as follows:

	2000	1999	1998
	(in thousands)		
Income taxes at statutory federal rate	$ 4,569	$ 4,217	$ 4,017
Increase (decrease) in taxes resulting from:			
Tax exempt income	(648)	(884)	(839)
Nondeductible expense	167	198	192
State income tax, net of federal tax effect	110	638	688
Net operating loss, Gateway	(29)	(29)	(29)

Tax credits	(48)	(48)	(33)
Other	(5)	(7)	(70)
Total income tax expense	$ 4,116	$ 4,085	$ 3,926

NOTE 13 - INCOME TAXES (continued)

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

	2000		1999	
	Federal	State	Federal	State
Deferred tax assets:	(in thousands)			
Bad debts	$ 2,358	$ 589	$ 2,153	$ 538
Pension and deferred compensation liability	411	103	535	134
Net operating loss carryforward	288	0	288	0
Other	229	61	190	48
	3,286	753	3,166	720
Deferred tax liabilities:				
Accretion	33	8	24	6
Depreciation	499	125	467	117
Mortgage servicing rights	482	121	496	124
State taxes	125	0	96	0
Leases	224	56	301	75
Deferred loan fees	306	76	465	116
Other	0	0	0	0
	1,669	386	1,849	438
Valuation allowance	138	0	138	0
Net deferred tax asset	$ 1,479	$ 367	$ 1,179	$ 282

In addition to the net deferred tax assets included above, the deferred income tax asset allocated to the unrealized net loss on securities available for sale included in equity was $136,000 and $3,147,000 for 2000 and 1999.

NOTE 14 - ACQUISITIONS

On February 20, 1998, the Company acquired the Peru, Indiana and Greentown, Indiana offices of National City Bank. These acquisitions were accounted for using the purchase method of accounting. The results of the operations of the acquired offices are included in the income statement of the Company beginning as of the purchase date.

The branch acquisitions were not considered to be acquisitions of a business since, among other things, approximately 87% of the $34,335,000 in assets received were in the form of cash and only a relatively small portion of the assets were in the form of loans. The future earnings from the assets acquired will be primarily dependent on the effective use of the cash and, thus, historical operating results of the branches acquired would not be indicative of future results. Accordingly, only summary information regarding the effect of the acquisition on the balance sheet is presented.

	(in thousands)
Assets:	
Cash and due from banks	$ 30,020
Loans	14
Land, premises and equipment	1,584
Intangible assets	2,717
Liabilities:	
Deposits	$ 34,321
Other liabilities	14

NOTE 15 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates in 2000 were as follows:

	(in thousands)
Beginning balance	$ 24,718
New loans and advances	70,737
Effect of changes in related parties	(235)
Repayments	(69,484)
Ending balance	$ 25,736

Deposits from principal officers, directors, and their affiliates at year-end 2000 and 1999 were $7,486,000 and $7,422,000.

NOTE 16 - STOCK OPTIONS

A stock option plan was approved by shareholders at the annual meeting in April, 1998. The plan requires that the exercise price for the options is the market price at the date the options are granted. The maximum option term is ten years and the options vest over 3 to 5 years. A summary of the activity in the plan follows:

	2000		1999		1998	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of the year	290,270	$ 22.58	188,935	$ 24.60	0	$ 0.00
Granted	217,150	14.27	113,910	19.33	195,145	24.60
Exercised	0	0.00	0	0.00	0	0.00
Forfeited	52,650	21.03	12,575	23.49	6,210	24.38
Outstanding at end of the year	454,770	$ 18.79	290,270	$ 22.58	188,935	$ 24.60
Options exercisable at end of the year	22,700	$ 23.29	0	$ 0.00	925	$ 28.00
Weighted-average fair value of options granted during the year		$ 7.07		$ 7.46		$ 9.80

Options outstanding at year-end 2000 were as follows:

	Outstanding		Exercisable	
	Number	Weighted-Average Remaining Contractual Life	Number	Weighted-Average Exercise Price
Range of exercise prices				
$11.20 - $14.00	103,800	9.4	600	$ 13.50
$14.01 - $16.80	100,550	9.0	1,200	$ 15.13
$16.81 - $19.60	97,410	7.7	5,200	$ 19.44
$22.40 - $25.20	138,660	6.8	9,700	$ 24.38
$25.21 - $28.00	14,350	4.3	6,000	$ 27.50
Outstanding at year-end	454,770	8.0	22,700	$ 23.29

Had compensation cost for stock options been recorded in the financial statements, net income and earnings per common share would have been the pro forma amounts indicated below. The pro forma effect may increase in the future if more options are granted.

	2000	1999	1998
Net income (in thousands) as reported	$ 9,322	$ 8,319	$ 7,888
Pro forma net income (in thousands)	$ 8,497	$ 7,799	$ 7,752
Basic earnings per common share as reported	$ 1.60	$ 1.43	$ 1.36
Pro forma basic earnings per common share	$ 1.46	$ 1.34	$ 1.33
Diluted earnings per common share as reported	$ 1.60	$ 1.43	$ 1.36
Pro forma diluted earnings per common share	$ 1.46	$ 1.34	$ 1.33

The pro forma effects are computed with option pricing models, using the following weighted-average assumptions as of the grant date:

	2000	1999	1998
Risk-free interest rate	5.81%	5.26%	5.53%
Expected option life	4.98 years	4.94 years	4.91 years
Expected price volatility	79.88%	44.00%	40.75%
Dividend yield	2.46%	1.47%	1.44%

NOTE 17 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

The Company and Bank are 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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The 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 Company and Bank 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, 2000 and 1999, that the Company and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2000, the most recent notification from the federal regulators categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and Bank 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 Company's or Bank'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
			(in thousands)			
As of December 31, 2000:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 82,537	10.24%	$ 64,496	8.00%	$ 80,621	10.00%
Bank	$ 81,020	10.06%	$ 64,434	8.00%	$ 80,542	10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 75,414	9.35%	$ 32,248	4.00%	$ 48,372	6.00%
Bank	$ 73,896	9.17%	$ 32,217	4.00%	$ 48,325	6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 75,414	7.20%	$ 41,874	4.00%	$ 52,343	5.00%
Bank	$ 73,896	7.06%	$ 41,850	4.00%	$ 52,313	5.00%
As of December 31, 1999:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 74,844	10.26%	$ 58,330	8.00%	$ 72,913	10.00%
Bank	$ 73,980	10.01%	$ 59,144	8.00%	$ 73,298	10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 67,986	9.32%	$ 29,165	4.00%	$ 43,748	6.00%
Bank	$ 67,458	9.12%	$ 29,572	4.00%	$ 44,358	6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 67,986	6.77%	$ 40,167	4.00%	$ 50,208	5.00%
Bank	$ 67,458	6.72%	$ 40,183	4.00%	$ 50,228	5.00%

Indiana law prohibits the Bank from paying dividends in an amount greater than its undivided profits. The Bank is required to obtain the approval of the DFI for the payment of any dividend if the total amount of all dividends declared by the Bank during the calendar year, including the proposed dividend, would exceed the sum of the retained net income for the year to date combined with its retained net income for the previous two years. Indiana law defines "retained net income" to mean the net income of a specified period, calculated under the consolidated report of income instructions, less the total amount of all dividends declared for the specified period.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2000. As of December 31, 2000, approximately $17 million was available to be paid as dividends to the Company by the Bank. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by the Bank if the FDIC determines such payment would constitute an unsafe or unsound practice.

NOTE 18 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table contains the estimated fair values and the related carrying values of the Company's financial instruments at December 31, 2000 and 1999. Items, which are not financial instruments, are not included.

	2000		1999	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$ 88,993	$ 88,993	$ 63,104	$ 63,104
Real estate mortgages held for sale	183	183	862	862
Securities available for sale	293,608	293,608	271,421	271,421
Loans, net	711,752	758,311	647,376	638,331
Federal Home Loan Bank stock	3,568	3,568	3,568	3,568
Accrued interest income receivable	6,727	6,727	5,402	5,402
Loan servicing rights	1,419	1,419	1,459	1,459
Financial liabilities:				
Certificates of deposit	(560,249)	(562,396)	(498,520)	(498,654)
All other deposits	(285,080)	(285,080)	(249,723)	(249,723)
Securities sold under agreements to repurchase	(138,154)	(138,243)	(121,374)	(122,189)
Other short-term borrowings	(61,924)	(61,924)	(74,000)	(74,000)
Long-term debt	(11,433)	(11,457)	(16,473)	(16,213)
Guaranteed preferred beneficial interests in Company's subordinated debentures	(19,291)	(18,750)	(19,264)	(18,500)
Accrued interest expenses payable	(5,041)	(5,041)	(3,391)	(3,391)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2000 and 1999. The estimated fair value for cash, cash equivalents, accrued interest and Federal Home Loan Bank Stock is considered to approximate cost. Real estate mortgages held for sale are based upon 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 and guaranteed preferred beneficial interests in the Company's subordinated debentures are 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 Company would charge for similar loans at December 31, 2000 and 1999, 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 Company would pay on such deposits or borrowings at December 31, 2000 and 1999, 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 Company to have disposed of such items at December 31, 2000 and 1999, 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, 2000 and 1999, should not necessarily be considered to apply at subsequent dates.

In addition, other assets and liabilities of the Company 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 Company's trust department, the trained work force, customer goodwill and similar items.

NOTE 19 - COMMITMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES

During the normal course of business, the Company 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, 2000 and 1999, were as follows:

	2000		1999	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commercial loan lines of credit	$ 17,581	$ 144,622	$ 30,797	$ 179,986
Commercial loan standby letters of credit	0	7,845	0	6,783
Real estate mortgage loans	1,470	1,289	2,424	1,030
Real estate construction mortgage loans	0	1,478	0	1,762
Credit card open-ended revolving lines	7,356	0	6,584	0
Home equity mortgage open-ended revolving lines	0	37,460	0	31,521
Consumer loan open-ended revolving lines	0	4,809	0	4,626

Total	$ 26,407	$ 197,503	$ 39,805	$ 225,708

NOTE 19 - COMMITMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES (continued)

At December 31, 2000 and 1999, the range of interest rates for commercial loan commitments with a fixed rate was 4.92% to 14.50% and 4.92% to 12.50%. The range of interest rates for commercial loan commitments with variable rates was 6.63% to 13.50% and 6.93% to 12.50% at December 31, 2000 and 1999. The index on variable rate commercial loan commitments is principally the Company'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 Company 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 Company's exposure to credit losses in the event of nonperformance is represented by the contractual amount of the commitments. Management does not expect any significant losses as a result of these commitments.

NOTE 20 - PARENT COMPANY STATEMENTS

The Company operates primarily in the banking industry, which accounts for 100 percent of its revenues, operating income, and assets. Presented below are parent only financial statements:

CONDENSED BALANCE SHEETS

	December 31	
	2000	1999
	(in thousands)	
ASSETS		
Deposits with Lake City Bank	$ 1,102	$ 466
Investment in banking subsidiary	83,454	73,329
Investment in non-banking subsidiary	619	619
Other assets	1,909	1,705
Total assets	$ 87,084	$ 76,119
LIABILITIES		
Dividends payable and other liabilities	$ 1,492	$ 1,306
Subordinated debt	20,619	20,619
STOCKHOLDERS' EQUITY	64,973	54,194
Total liabilities and stockholders' equity	$ 87,084	$ 76,119

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31		
	2000	1999	1998
	(in thousands)		
Dividends from Lake City Bank	$ 5,019	$ 3,928	$ 2,182
Interest on deposits and repurchase agreements, Lake City Bank	5	5	6
Equity in undistributed income of subsidiaries	5,535	5,547	6,870
Interest expense on subordinated debt	1,800	1,800	1,800
Miscellaneous expense	208	120	134
INCOME BEFORE INCOME TAXES	8,551	7,560	7,124
Income tax benefit	771	759	764
NET INCOME	$ 9,322	$ 8,319	$ 7,888

NOTE 20 - PARENT COMPANY STATEMENTS (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2000	1999	1998
	(in thousands)		
Cash flows from operating activities:			
Net income	$ 9,322	$ 8,319	$ 7,888
Adjustments to net cash from operating activities			
Equity in undistributed income of subsidiaries	(5,535)	(5,547)	(6,870)
Other changes	(17)	218	(175)
Net cash from operating activities	3,770	2,990	843
Cash flows from investing activities	0	0	0
Cash flows from financing activities	(3,134)	(2,637)	(2,150)
Net increase (decrease) in cash and cash equivalents	636	353	(1,307)
Cash and cash equivalents at beginning of the year	466	113	1,420
Cash and cash equivalents at end of the year	$ 1,102	$ 466	$ 113

NOTE 21 - EARNINGS PER SHARE

Following are the factors used in the earnings per share computations:

	2000	1999	1998
Basic earnings per common share			
Net income	$ 9,322,000	$ 8,319,000	$ 7,888,000
Weighted-average common shares outstanding	5,813,984	5,813,984	5,813,984
Basic earnings per common share	$ 1.60	$ 1.43	$ 1.36
Diluted earnings per common share			
Net income	$ 9,322,000	$ 8,319,000	$ 7,888,000
Weighted-average common shares outstanding for basic earnings per common share	5,813,984	5,813,984	5,813,984
Add: Dilutive effect of assumed exercises of stock options	15	8	0
Average shares and dilutive potential common shares	5,813,999	5,813,992	5,813,984
Diluted earnings per common share	$ 1.60	$ 1.43	$ 1.36

Stock options for 454,270 and 290,262 shares of common stock were not considered in computing diluted earnings per common share for 2000 and 1999 because they were antidilutive. The stock option plan was adopted in 1998.

NOTE 22 - SELECTED QUARTERLY DATA (UNAUDITED)

2000	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 21,074	$ 20,398	$ 19,743	$ 18,835
Interest expense	12,137	11,650	10,818	10,396
Net interest income	8,937	8,748	8,925	8,439
Provision for loan losses	499	92	400	215
Noninterest income	2,636	2,638	2,534	2,562
Noninterest expense	7,756	8,005	7,393	7,621
Income tax expense	1,014	974	1,165	963
Net income	$ 2,304	$ 2,315	$ 2,501	$ 2,202
Basic earnings per common share	$ 0.39	$ 0.40	$ 0.43	$ 0.38
Diluted earnings per common share	$ 0.39	$ 0.40	$ 0.43	$ 0.38

1999	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 18,215	$ 17,689	$ 17,075	$ 16,416
Interest expense	9,737	9,260	9,126	8,970
Net interest income	8,478	8,429	7,949	7,446
Provision for loan losses	260	550	275	225
Noninterest income	2,495	3,288	3,146	3,024
Noninterest expense	7,882	7,947	7,571	7,141
Income tax expense	833	1,128	1,090	1,034
Net income	$ 1,998	$ 2,092	$ 2,159	$ 2,070
Basic earnings per common share	$ 0.34	$ 0.36	$ 0.37	$ 0.36
Diluted earnings per common share	$ 0.34	$ 0.36	$ 0.37	$ 0.36

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 subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company'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 subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with generally accepted accounting principles.

As disclosed in Note 1, during 1998 the Company adopted new accounting guidance on derivatives.

Crowe, Chizek and Company LLP

South Bend, Indiana
January 12, 2001

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation of the Company'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 Company's financial position and results of operations and were prepared in conformity with generally accepted accounting principles. Management also has included in the Company's financial statements; amounts that are based on estimates and judgments, which it believes, are reasonable under the circumstances.

The Company 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 Company 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 Company's system provides the appropriate balance between costs of controls and the related benefits.

The independent auditors have audited the Company'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 Company has an Audit Review Committee composed of five non-management Directors. The Committee meets periodically with the internal auditors and the independent auditors.

FINANCIAL CONDITION

Growth and Expansion

The Company's growth continued in 2000 through the addition of one new office and the ongoing growth in existing offices. Since 1995, the Company has added twenty new offices through acquisition and internal growth. As of December 31, 2000, the Company had 43 offices serving 15 counties in north central Indiana. This growth was evidenced by a 10.5% increase in total assets, which were $1.1 billion as of December 31, 2000 versus $1.0 billion in 1999. In October, the Company opened a second office in Allen County, the second largest trading area in the state. The Company intends to open a third office in both Allen and St. Joseph Counties in 2001 and also continues to evaluate expansion opportunities. The Company will consider future opportunities with an emphasis on markets that it believes would be receptive to its business philosophy of local, independent banking.

The Company experienced a $109.3 million, or 10.5% growth in assets from $1.0 billion in 1999 to $1.1 billion in 2000. The primary increase occurred in total loans, which increased 9.9%, or $65.0 million, from $653.9 million in 1999 to $718.9 million in 2000. Commercial loans grew 16.0% from $422.1 million to $ 489.5 million, an increase of $67.4 million versus 1999. Consumer loans decreased $8.3 million, or 4.5%, versus 1999. During 2000, the Company strategically focused on loan growth in the commercial loan portfolio that historically produces higher returns than the consumer loan portfolio. Mortgage loans increased 12.5%, or $5.9 million, versus 1999 to $52.7 million, reflecting the Company's decision to retain a higher volume of mortgage loans versus selling the loans in the secondary market. Core deposits, total deposits and securities sold under agreements to repurchase (repurchase agreements) increased $113.9 million, or 13.1% from $869.6 million in 1999 to $983.5 million in 2000. Large time deposits, which are primarily short-term, increased $54.4 million, or 43.2% from $125.9 million in 1999 to $180.3 million in 2000. The Company utilized these deposit increases to fund the loan and other asset growth that occurred during 2000.

The Company reached a milestone in 1999, as total assets exceeded $1.0 billion as of December 31, 1999. This represented an increase of $60.9 million, or 6.2%, over December 31, 1998. Total loans increased 21.4% to $653.9 million as of December 31, 1999. Total securities decreased 17.2% to 271.4 million as of December 31, 1999. This change in the asset mix resulted from management's decision to employ the funding received from the branch acquisitions late in 1997 and early in 1998 to fund loan growth. Prior to 1999, this funding was invested in the securities portfolio until such time as it was required to fund loan growth. The Company also believes that it employed a more aggressive funding strategy in 1999. Emphasis was placed on growth in relationship type accounts. Therefore, while total deposits increased 1.0%, growth in checking accounts and the Investor's Weekly products were 15.4% and 25.4%, respectively. The Company also emphasized the sale of cash management accounts during the year that resulted in a 40.2% increase in overnight repurchase agreements. This growth, combined with a greater use of short-term FHLB borrowings, resulted in an increase in short-term borrowings of 44.0%, to $195.4 million as of December 31, 1999.

Liquidity

Management maintains a liquidity position that it believes will adequately provide funding for loan demand and deposit run-off that may occur in the normal course of business. The Company relies on a number of different sources in order to meet these potential liquidity demands. The primary sources are increases in deposit accounts and cash flows from loan payments and the securities portfolio. Given current prepayment assumptions, the cash flow from the securities portfolio is expected to provide approximately $66.0 million of funding in 2001.

In addition to these primary sources of funds, management has several secondary sources available to meet potential funding requirements. As of December 31, 2000, the Company had $78.5 million in Federal fund lines with correspondent banks and may borrow up to $100 million at the Federal Home Loan Bank of Indianapolis. On October 1, 1998, the Company transferred all securities in its held to maturity portfolio to its available for sale (AFS) portfolio as permitted by the early adoption of SFAS No. 133. This increased the possible sources the Company may access due to the fact that these securities may be sold to meet any funding demands. Management believes that the securities in the AFS portfolio are of high quality and would therefore be marketable. Approximately 85.8% of this portfolio is comprised of U.S. Treasury securities, Federal agency securities or mortgage-backed securities directly or indirectly backed by the Federal government. The Company has historically sold mortgage loans on the secondary market to reduce interest rate risk and to create an additional source of funding.

During 2000, cash and cash equivalents increased $25.9 million from $63.1 million to $89.0 million as of December 31, 2000. A $97.1 million increase in deposit balances was the primary driver behind this change. Other sources of funds included proceeds from calls and maturities of securities totaling $38.8 million and proceeds from the sales of loans of $22.5 million. A rising rate environment contributed to a slowing demand for residential real estate mortgage loans and resulted in a decrease in proceeds from the sale of mortgage loans. In addition, the Company did not generate any securities gains in 2000 versus securities gains of $1.3 million in 1999. The major uses of funds included an increase in loans, purchases of securities and fixed asset additions. Loans increased approximately $65.6 million, which was net of approximately $21.4 million of loans originated and sold during 2000. Purchases of securities totaled $54.3 million and purchases of land, premises and equipment were $2.4 million.

During 1999, cash and cash equivalents increased $1.6 million to $63.1 million as of December 31, 1999. Lower interest rates prevailed in 1999

thereby maintaining a demand for residential real estate loans. Proceeds from the sale of loans were $82.8 million in 1999. Other sources of funds included proceeds from sales, calls and maturities of securities totaling $110.1 million. The sale of loans and securities also contributed $2.6 million to pre-tax income. The major uses of funds included an increase in loans, purchases of securities and fixed asset additions. Net loans increased approximately $115.9 million in 1999, which was net of approximately $79.3 million of loans originated and sold during 1999. Purchases of securities were $65.5 million and fixed asset additions were $3.9 million.

During 1998, cash and cash equivalents increased $11.7 million from $49.8 million to $61.5 million as of December 31, 1998. The cash and cash equivalents increased in 1998 partially as a result of a $92.0 million increase in deposit accounts, which did not include deposits acquired in conjunction with office acquisitions, a slight increase in short-term borrowings and cash flows from loan and security payments. The net proceeds from the acquisition of offices from another financial institution in February 1998 added approximately $30.0 million. Historically low interest rates generated a significant increase in residential real estate mortgage loan demand. This increase resulted in proceeds from the sale of loans of $64.6 million in 1998 versus $27.4 million in 1997. The low rate environment also provided the Company with an opportunity to sell securities from the AFS portfolio at significant gains. Proceeds from the sales of securities during 1998 were $65.4 million. The sales of loans and securities provided a source of funds to meet increased funding demands and added approximately $2.7 million to pre-tax income. Primary uses included the funding of increased loan volume, the purchase of securities and fixed asset additions. Loans increased approximately $80.8 million during 1998, net of approximately $63.0 million of loans originated and sold during the year. During 1998, $223.0 million of securities were purchased and approximately $4.0 million was directed to the fixed asset additions, exclusive of fixed assets added through office acquisitions.

Asset/Liability Management (ALCO) and Securities

Interest rate risk represents the Company's primary market risk exposure. The Company does not have material exposure to foreign currency exchange risk, does not own any derivative financial instruments and does not maintain a trading portfolio. 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, which are designed to protect the Company from the impact that interest rate changes could have on net income, but does not necessarily indicate the effect on future net interest income. Given the Company's mix of interest bearing liabilities and interest bearing assets on December 31, 2000, the net interest margin could be expected to decline in a falling interest rate environment and conversely, to increase in a rising rate environment. During January, 2001 the Federal Reserve lowered the target for the Federal Funds rate on two occasions by a total of 100 basis points. These actions caused a corresponding decrease in Lake City Bank's Prime rate from 9.50% to 8.50%. As a result, these rate decreases have had an adverse impact on the Company's net

interest margin subsequent to the conclusion of fiscal 2000. The Company utilizes a computer program to stress test the balance sheet under a wide variety of interest rate scenarios. The model quantifies the income impact of changes in customer preference for products, basis risk between the assets and the liabilities that support them and the risk inherent in different yield curves, as well as other factors. 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. Although management does not consider GAP ratios in this planning, the information can be used in a general fashion to look at asset and liability mismatches. The Company's cumulative GAP ratio as of December 31, 2000, for the next 12 months is a negative 24.8% of earning assets.

The following tables provide information regarding the Company's financial instruments used for purposes other than trading that are sensitive to changes in interest rates. For loans, securities, and liabilities with contractual maturities, the tables present principal cash flows and related weighted-average interest rates by contractual maturities, as well as the Company's historical experience of the impact of interest-rate fluctuations on the prepayment of residential and home equity loans and mortgage-backed securities. For core deposits such as demand deposits, interest-bearing checking, savings and money market deposits that have no contractual maturity, the tables present principal cash flows and, as applicable, related weighted-average interest rates. These factors are based upon the Company's historical experience, management's judgment and statistical analysis, as applicable, concerning their most likely withdrawal behaviors. Weighted-average variable rates are based upon rates existing at the reporting date.

2000
Principal/Notional Amount Maturing in:
(Dollars in thousands)

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total	Fair Value 12/31/00
Rate sensitive assets:								
Fixed interest rate loans	$ 114,061	$ 73,736	$ 74,395	$ 58,977	$ 21,153	$ 12,893	$ 355,215	$ 364,107
Average interest rate	8.86%	8.77%	8.61%	8.33%	8.70%	8.21%	8.66%	
Variable interest rate loans	$ 318,843	$ 1,335	$ 1,263	$ 1,227	$ 1,235	$ 39,941	$ 363,844	$ 362,942
Average interest rate	9.75%	14.57%	14.67%	14.81%	14.85%	14.12%	10.29%	
Fixed interest rate securities	$ 46,587	$ 21,808	$ 29,764	$ 21,118	$ 19,565	$ 151,920	$ 290,762	$ 290,452
Average interest rate	5.75%	6.53%	6.22%	6.51%	6.65%	6.46%	6.34%	
Variable interest rate securities	$ 314	$ 321	$ 328	$ 337	$ 345	$ 1,544	$ 3,189	$ 3,156
Average interest rate	6.19%	6.62%	6.59%	6.56%	6.53%	6.58%	6.54%	
Other interest-bearing assets	$ 4,311	-	-	-	-	-	$ 4,311	$ 4,311
Average interest rate	6.50%	-	-	-	-	-	6.50%	
Rate sensitive liabilities:								
Noninterest bearing checking	$ 8,559	$ 7,638	$ 1,383	$ 1,317	$ 1,926	$ 143,783	$ 164,606	$ 164,606
Average interest rate	-	-	-	-	-	-	-	
Savings & interest bearing checking	$ 5,257	$ 4,746	$ 4,215	$ 3,829	$ 3,070	$ 99,357	$ 120,474	$ 120,474
Average interest rate	1.82%	1.82%	1.82%	1.82%	1.82%	1.75%	1.76%	
Time deposits	$ 502,545	$ 37,820	$ 12,117	$ 3,762	$ 3,126	$ 879	$ 560,249	$ 561,951
Average interest rate	5.96%	6.15%	5.89%	5.60%	6.01%	5.54%	5.97%	
Fixed interest rate borrowings	$ 147,978	$ 12,100	$ 1,433	-	-	$ 19,291	$ 180,802	$ 180,904
Average interest rate	5.50%	5.48%	6.15%	-	-	9.00%	5.87%	
Variable interest rate borrowings	$ 50,000	-	-	-	-	-	$ 50,000	$ 50,000
Average interest rate	6.60%	-	-	-	-	-	6.60%	

1999
Principal/Notional Amount Maturing in:
(Dollars in thousands)

	Year 1	ear 2	Year 3	Year 4	Year 5	Thereafter	Total	Fair Value 12/31/99
Rate sensitive assets:								
Fixed interest rate loans	$ 78,484	$ 56,049	$ 49,134	$ 58,882	$ 80,464	$ 29,188	$ 352,201	$ 343,652
Average interest rate	8.65%	8.69%	8.66%	8.29%	7.97%	7.98%	8.39%	
Variable interest rate loans	$ 264,375	$ 1,657	$ 1,442	$ 1,300	$ 1,142	$ 32,643	$ 302,559	$ 302,062
Average interest rate	8.93%	10.25%	10.18%	10.26%	10.80%	8.98%	8.96%	
Fixed interest rate securities	$ 18,233	$ 47,209	$ 22,150	$ 26,985	$ 21,305	$ 139,405	$ 275,287	$ 267,414
Average interest rate	6.54%	5.65%	6.42%	6.10%	6.38%	6.11%	6.10%	
Variable interest rate securities	$ 209	$ 206	$ 218	$ 231	$ 245	$ 2,968	$ 4,077	$ 4,007
Average interest rate	6.36%	6.69%	6.69%	6.69%	6.69%	6.98%	6.88%	
Other interest-bearing assets	$ 3,783	-	-	-	-	-	$ 3,783	$ 3,783
Average interest rate	5.50%	-	-	-	-	-	5.50%	
Rate sensitive liabilities:								
Noninterest bearing checking	$ 7,103	$ 6,338	$ 1,147	$ 1,093	$ 1,598	$ 119,316	$ 136,595	$ 136,595
Average interest rate	-	-	-	-	-	-	-	
Savings & interest bearing checking	$ 4,669	$ 4,216	$ 3,744	$ 3,401	$ 2,727	$ 94,371	$ 113,128	$ 113,128

Average interest rate	1.82%	1.82%	1.82%	1.82%	1.82%	1.75%	1.76%	
Time deposits	$ 414,773	$ 61,477	$ 11,922	$ 5,623	$ 3,069	$ 1,656	$ 498,520	$ 498,654
Average interest rate	5.13%	5.71%	5.75%	5.38%	5.46%	5.55%	5.22%	
Fixed interest rate borrowings	$ 129,574	$ 20,800	-	$ 1,473	-	$ 19,264	$ 171,111	$ 170,902
Average interest rate	4.60%	5.58%	-	6.15%	-	9.00%	5.23%	
Variable interest rate borrowings	$ 60,000	-	-	-	-	-	$ 60,000	$ 60,000
Average interest rate	5.42%	-	-	-	-	-	5.42%	

These tables illustrate the Company's growth during 2000. Increases in variable rate loans, fixed rate loans, fixed rate securities, noninterest bearing checking deposits and time deposits primarily reflect the growth of the Company's existing offices. The increase in loans during 2000 was driven primarily by strong growth in the Company's commercial loan portfolio. The increase in demand deposits, which are noninterest bearing, and time deposits, which are primarily short-term, were utilized to fund the increase in the loan and securities portfolios.

During 1999, LCB Investments Limited was formed to manage a portion of the Company's investment portfolio. LCB Investments Limited, a Bermuda-based partnership, is a subsidiary of Lake City Bank and is included in the consolidation of the Company's financial statements.

The Company's investment portfolio consists of U.S. Treasuries, agencies, mortgage-backed securities, municipal bonds and corporate bonds. During 2000, purchases in the securities portfolio consisted primarily of mortgage-backed securities. As of December 31, 2000, the Company's investment in mortgage-backed securities represented approximately 70.7% of total securities and consisted of CMOs and mortgage pools issued by GNMA, FNMA and FHLMC. The Federal government backs these securities, directly or indirectly. All mortgage securities purchased by the Company are within risk tolerances for price, prepayment, extension and original life risk characteristics contained in the Company's investment policy. The Company uses Bloomberg analytics to evaluate and monitor all purchases. As of December 31, 2000, the securities in the AFS portfolio had a three year average life with approximately 9.9% price depreciation in the event of a 300 basis points upward movement. The portfolio had approximately 5.6% price appreciation in the event of a 300 basis point downward movement in rates. As of December 31, 2000, all mortgage securities were performing in a manner consistent with management's original expectations.

Capital Management

The Company believes that a strong, aggressively managed capital position is critical to long-term earnings and expansion. Bank regulatory agencies exclude the market value adjustment created by SFAS No. 115 (AFS adjustment) from capital adequacy calculations. Excluding this adjustment from the calculation, the Company had Tier I leverage capital, Tier I risk based capital and Tier II risk based capital ratios of 7.2%, 9.4% and 10.2%, respectively as of December 31, 2000. These ratios met or exceeded the FDIC "well-capitalized" minimums of 5.0%, 6.0% and 10.0%, respectively.

The ability to maintain and grow these ratios is a function of the balance between net income and a prudent dividend policy. Total stockholders' equity increased by 19.9%, to $65.0 million as of December 31, 2000, from $54.2 million as of December 31, 1999. The increase in 2000 resulted from net income of $9.3 million less the following factors: (1) cash dividends of $3.0 million, (2) a favorable change in the AFS adjustment of $4.6 million net of tax, and (3) $123,000 for the purchase of treasury stock. This 2000 AFS adjustment reflected a 250 basis point decrease in two to five year U.S. Treasury rates during 2000. Due to the fact that the securities portfolio is primarily fixed rate, a negative equity adjustment would likely occur if interest rates increased. 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 1999 decrease of $962,000 resulted from net income of $8.3 million less the following: (1) cash dividends declared of $2.5 million, (2) an unfavorable AFS adjustment of $6.6 million, net of tax, and (3) $87,000 for the purchase of treasury stock. This 1999 AFS adjustment reflected a 350 basis point increase in two to five year U. S. Treasury rates during 1999.

Other than those discussed in this management discussion, management is not aware of any known trends, events or uncertainties that would have a material effect on the Company's liquidity, capital and results of operations. In addition, management is not aware of any regulatory recommendations that, if implemented, would have such an effect.

Allowance for Credit Risk

At December 31, 2000, the allowance for loan losses was $7.1 million, or 0.99% of total loans outstanding, versus $6.5 million, or 1.00%, of total loans outstanding at December 31, 1999. The process of identifying probable credit losses is a subjective process. Therefore, the Company 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 includes the following:

- Management reviews the larger individual loans (primarily in the commercial loan portfolio) for unfavorable collectability factors (including impairment) and assesses the requirement for specific reserves on such credits. For those loans not subject to specific review, management reviews historical loan loss experience and ratios to establish trends in charge-offs by loan category. The ratios of net charge-offs to a particular type of loan enables management to establish probable losses by loan category and thereby establish appropriate reserves for loans that are not specifically reviewed.

- Management reviews the current economic conditions of its lending market to determine the effect by loan category, as well as the effect on the aggregate loan portfolio.

- Management reviews delinquent loan reports to determine risk of loss. High delinquencies are generally indicative of an increase in loan losses.

As a result of the methodology in determining the adequacy of the

allowance for loan losses, the provision for loan losses was $1.2 million in 2000 versus $1.3 million in 1999. The slight decrease in the provision for loan losses was primarily related to slower overall loan growth in 2000. During 2000 a decision was made de-emphasize indirect consumer lending. This action contributed to a decline in the consumer loan portfolio of $8.3 million versus an increase of $53.7 million in 1999. Overall, net loan growth in 2000 was $65.0 million versus $115.9 million in 1999. As of December 31, 2000, loans past due 90 days or more and still accruing were $6.8 million (excluding impaired loans) versus $171,000 as of year end 1999 and nonaccrual loans were $206,000 versus $329,000 as of year end 1999. The increase in loans past due 90 days or more and still accruing resulted primarily from the inclusion of two commercial loans totaling $6.2 million, or approximately 90% of the $6.8 million in this category. Of this amount, $1.4 million was paid off subsequent to the end of the fiscal year. A second loan of $4.8 million matured in the fourth quarter of 2000 and has therefore been included in this category. The borrower is current on all interest under the matured facility. The Company has reached an agreement with a bank participant and the borrower to extend the terms of the financing and anticipates that the extension will be completed during the first quarter of 2001.

Overall, the trend in non-performing loans reflects the weakening economic conditions in some of the Company's markets, as well as the general economic weakness prevalent throughout much of the country. The Company believes that its' overall expansion strategy has employed a credit risk management approach that promotes diversification and therefore creates a balanced portfolio with appropriate risk parameters.

The Company has experienced growth in total loans over the last three years of $260.2 million, or 56.7%. The concentration of this loan growth was in the commercial loan portfolio. Commercial loans comprised 61.3%, 57.4% and 56.0% of the total loan portfolio at December 31, 2000, 1999 and 1998, respectively. Management believes that it is prudent to continue to provide for loan losses at the current levels due to this historical loan growth and current economic conditions.

Inflation

The effects of price changes and inflation can vary substantially for most financial institutions. While management believes that inflation affects the growth of total assets, it believes that it is difficult to assess the overall impact. Management believes this to be the case due to the fact that generally neither the timing nor the magnitude of the inflationary changes in the consumer price index (CPI) coincides with changes in interest rates. The price of one or more of the 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 Company. 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.

RESULTS OF OPERATIONS

2000 versus 1999

The Company reported record net income of $9.3 million in 2000, an increase of $1.0 million, or 12.1% versus net income of $8.3 million in 1999. The increase resulted in part from a $109.3 million, or 10.5% growth in assets from $1.0 billion in 1999 to $1.1 billion in 2000. The primary increase occurred in total loans, which increased 9.9%, or $65.0 million, from $653.9 million in 1999 to $718.9 million in 2000.

Net interest income increased $2.7 million, or 8.5%, to $35.0 million versus $32.3 million in 1999. Interest income increased $10.7 million, or 15.4%, from $69.4 million in 1999 to $80.1 million in 2000. The increase occurred as a result of earning asset growth of $86.4 million, or 9.4%, from $923.4 million in 1999 to over $1.0 billion in 2000. In addition, an overall increase in interest rates that began at the end of 1999 and continued during the first half of 2000 contributed to the increase in interest income. The Company had a net interest margin of 3.72% in 2000 versus 3.70% in 1999. Interest expense increased $7.9 million to $45.0 million, an increase of 21.3% versus $37.1 million in 1999. Deposits increased to fund the loan growth during 2000, driven primarily by an increase in time deposits. Increases in noninterest bearing demand deposits of $28.0 million and Investor's Weekly accounts of $9.2 million versus 1999 also contributed to the funding of loan growth in 2000. The growth in relationship type accounts has been a core funding strategy of the Company during 1999 and 2000. The Company believes that the growth in the loan portfolio will continue in conjunction with the ongoing funding strategy that was implemented in 1999.

The Company believes that it maintained strong asset quality in 2000. Nonaccrual loans were $206,000, or 0.03% of total loans versus $ 329,000, or 0.05% of total loans in 1999. There were no loans classified as impaired in 2000 and one loan of $246,000 classified as impaired in 1999. Net charge-offs were $604,000, or 0.09% of average daily loans in 2000 versus $298,000, or 0.05% of average daily loans in 1999. The provision for loan loss expense was $1.2 million in 2000, resulting in an allowance for loan losses at December 31, 2000 of $7.1 million, which represented 0.99% of the loan portfolio versus $6.5 million in 1999, or 1.00% of the loan portfolio. The lower provision in 2000 versus 1999 was attributable to a number of factors, but was primarily a result of slower loan growth during 2000. The Company's management continues to monitor the adequacy of the provision based on loan levels, asset quality, economic conditions and other factors that may influence the assessment of the collectability of loans.

Noninterest income was $10.4 million in 2000 versus $12.0 million in 1999, a decrease of $1.6 million, or 13.2%. The largest contributor to the decrease was the absence of security gains in 2000 versus gains of $1.3 million in 1999. The decrease in noninterest income was also reflective of the rising rate environment which slowed new mortgage and mortgage refinancing activity. The reduction in mortgage activity resulted in a decrease in the gains on sale of mortgages, which were $504,000, a reduction of 61.3% versus $1.3 million in 1999. Trust and brokerage fees increased $401,000, or 23.2%, to $2.1 million versus $1.7 million in 1999.

Noninterest expense increased less than 1.0% from $30.5 million in 1999 to $30.8 million in 2000. Various increases in noninterest expense categories were offset by a $500,000 gain that resulted from the Company's curtailment of the pension plan in the second quarter of 2000. Salaries and wages, exclusive of the pension plan curtailment gain, increased $516,000, or 3.2%, to $16.4 million in 2000 versus $15.9 million in 1999. This increase was attributable to normal salary increases, staff additions and significantly increased health care costs. Other expense increased $447,000, or 4.8%, to $9.8 million in 2000 driven by an increase in professional fees. The increase in professional fees was primarily due to expenses incurred with outside financial and legal advisors related to the pension plan curtailment and changes to employee benefit plans in 2000. Net occupancy expense and equipment costs decreased from $5.3 million in 1999 to $5.1 million in 2000 as a result of the sale of two branch offices and related equipment during 2000.

As a result of these factors, income before income tax expense increased $1.0 million, or 8.3%, from $12.4 million in 1999 to $13.4 million in 2000. Income tax expense was $4.1 million in both 2000 and 1999. Income tax as a percent of income before tax was 30.6% in 2000 versus 32.9% in 1999. The decrease in income tax as a percent of income before tax resulted from the implementation of various tax strategies in 2000 and late 1999. Net income increased $1.0 million, or 12.1%, to $9.3 million in 2000 versus $8.3 million in 1999. Basic earnings per share in 2000 was $1.60, an increase of 11.9% versus $1.43 in 1999. The Company's net income performance represented a 15.8% return on January 1, 2000, stockholders' equity (excluding the equity adjustment related to SFAS No. 115) versus 15.6% in 1999. The net income performance resulted in a 0.88% return on average daily assets in 2000 versus 0.84% in 1999.

1999 versus 1998

The Company reported record earnings with net income at $8.3 million in 1999, an increase of $431,000, or 5.5%, versus $7.9 million in 1998. Interest income in 1999 was $69.4 million, an increase of $5.7 million, or 9.0%, versus $63.7 million in 1998. The increase resulted from the Company's strategy in 1999 to transfer assets from the securities portfolio to fund higher yielding loans. The loan to deposit ratio increased from 72.8% as of December 31, 1998 to 87.4% at year-end 1999. Interest and fees on loans increased $7.4 million, or 16.6%, while interest and dividends on securities decreased $1.4 million, or 7.4%, versus 1998. Total interest expense was $37.1 million in 1999, an increase of $1.0 million, or 2.8%, versus $36.1 million in 1998. An emphasis on controlling the Company's funding costs during the year contributed to this modest increase. The result of the above factors was net interest income of $32.3 million in 1999, a 17.1% increase versus $27.6 million in 1998. The

impact to the interest margin was an increase of 12 basis points to 3.70% in 1999 versus 3.58% in 1998. During 1999, the Company intended to continue growing the loan portfolio, as well as continuing the relationship funding strategy implemented during 1999. The prime rate increased 75 basis points during the second half of 1999 with 50 basis points of the increase occurring in the last two months of the year. The effect of this increase was not significant.

Nonaccrual loans were $329,000 at year-end, or 0.05% of total loans versus $0 in 1998. The 1999 amount included one loan totaling $246,000, which was recognized as impaired in 1999. Net charge-offs in 1999 were $298,000, or 0.05% of average daily loans, versus $278,000, or 0.06% of average daily loans in 1998. Although the Company believes asset quality remained strong, the growth in the loan portfolio made it necessary to recognize provision for loan loss expense of $1.3 million. The allowance for loan losses at December 31, 1999 was $6.5 million, which represented 1.00% of the loan portfolio versus $5.5 million, or 1.02% of the loan portfolio as of year-end 1998.

Noninterest income was strong in 1999; however slowing mortgage loan demand reduced the contribution from this area as compared to 1998. Noninterest income for 1999 was $12.0 million, an increase of $744,000, or 6.6%, versus $11.2 million in 1998. Deposit fees increased $317,000 or 7.9%, with other major increases in brokerage income, which increased $159,000, or 37.7%, insurance and credit card fees. Mortgage originations decreased 3.6% in 1999 versus 1998 as a result of rising interest rates and lower refinancing volume. Gains on sale of mortgage loans decreased 11.2% as a result. Security gains in 1999 increased 6.6% to $ 1.3 million.

Noninterest expense in 1999 was $30.5 million, an increase of $4.1 million, or 15.3%, versus $26.5 million in 1998. Salaries and employee benefits increased $1.8 million, or 13.0%, from $ 14.1 million to $ 15.9 million, reflecting normal salary increases, additions to staff and increased health care costs. Occupancy and equipment expenses increased $1.2 million, or 30.6% from $ 4.1 million in 1998 to $ 5.3 million in 1999. This reflected the investments in equipment and technology as part of the Company's commitment to prepare for the year 2000. Other expense increased $971,000, or 11.6%, from $8.3 million in 1998 to $9.3 million in 1999 with the largest increase occurring in data processing fees, which increased $431,000 in 1999. This reflected both changes in the Company's Trust Accounting System and year 2000 preparations.

As a result of these factors, income before income tax expense increased $590,000, or 5.0%, to $12.4 million in 1999 versus $11.8 million in 1998. Income tax expense was $4.1 million in 1999 versus $3.9 million in 1998. Income tax as a percent of income before tax was 32.9% in 1999 versus 33.2% in 1998. Net income increased $431,000, or 5.5%, to $8.3 million in 1999 versus $7.9 million in 1998. Basic earnings per share in 1999 were $1.43 versus $1.36 in 1998. Net income of $8.3 million represented a 15.6% return on January 1, 1999, stockholders' equity (excluding the equity adjustment related to SFAS No. 115), and a 0.84% return on average daily assets.

LAKE CITY BANK OFFICERS

Name	Title
Michael L. Kubacki	President
Robert C. Condon	Executive Vice President
Kevin L. Deardorff	Executive Vice President
David M. Findlay	Executive Vice President
Charles D. Smith	Executive Vice President
Walter L. Weldy	Executive Vice President

Audit

Name	Title
Betty L. McHenry	Senior Vice President and Auditor
Michelle R. Halter	Assistant Vice President
Teah D. Ruckman	Assistant Auditor

Commercial Services

Name	Title
Michael E. Gavin	Senior Vice President
H.A. "Rocky" Meyer	Senior Vice President
J. A. Arnold	Vice President
Kelly K. Ayers	Vice President
David A. Bickel	Vice President
James R. Cowan	Vice President
Drew D. Dunlavy	Vice President
Brent E. Hoffman	Vice President
Kenneth L. Kasamis	Vice President
Joseph F. Kessie	Vice President
William D. Leedy	Vice President
J. Randall Leininger	Vice President
Jack E. Mills	Vice President
Eric H. Ottinger	Vice President
Larry L. Penrod	Vice President
Clinton R. Pletcher	Vice President
Kelli S. Robinson	Vice President
Thomas G. Stark	Vice President
J. Chad Stoltzfus	Vice President
J. Mark Ulrich	Vice President
Randal U. Vutech	Vice President
Todd A. Bruce	Assistant Vice President
Kathy L. Sears	Assistant Vice President

Corporate Cash Management

Name	Title
Julie W. Whitehead	Vice President
Abbe S. Muta	Cash Management Officer

Financial

Name	Title
Teresa A. Bartman	Vice President and Controller
James J. Nowak	Vice President and Treasurer
Brian M. Lamb	Assistant Vice President

Marketing, Human Resources and Facilities

Name	Title
Jill A. DeBatty	Senior Vice President
Allyn P. Decker	Vice President
John W. Gove	Vice President
Paul S. Purvis	Vice President
Cathy L. Teghtmeyer	Vice President
Aimee C. Morgan	Human Resource Officer

Operations

Name	Title
Frank A. Soltis	Senior Vice President
Vicki D. Martin	Vice President
Angela K. Ritchey	Vice President
Lisa M. Bicknese	Assistant Vice President
Jean A. Ciriello	Assistant Vice President
Kirk B. Davis	Assistant Vice President
Joanie L. Foreman	Assistant Vice President
Lisa A. Fulton	Assistant Vice President
Ruth A. Hutcherson	Assistant Vice President
Linda A. Owens	Assistant Vice President
Lorretta J. Burnworth	Operations Officer
Janice J. Cox	Operations Officer
William L. Hilliard	Operations Officer
Scot A. Karbach	Operations Officer
Jan R. Martin	Operations Officer
Linda L. Swoverland	Operations Officer

Retail Services

Name	Title
Thomas P. Frantz	Senior Vice President
Dale L. Cramer	Vice President
Dennis E. Dolby	Vice President
James D. Tague	Vice President
Janet K. Anderson	Assistant Vice President
Carolyn A. Crabb	Assistant Vice President
Craig A. Haecker	Assistant Vice President
T. Larry Mitchell	Assistant Vice President
W. John Pritz	Assistant Vice President
Sue L. Sands	Assistant Vice President
Shannon D. Schrock	Assistant Vice President
Bradley W. Smith	Assistant Vice President
W. Randy Yoder	Assistant Vice President
Glenn A. Goudey	Senior Mortgage Underwriter
Lisa A. Stookey	Merchant Services Officer
Aaron M. Stroup	Mortgage Banking Officer
Melanie R. Shipley	Retail Banking Officer
Rafael M. Villalon	Retail Banking Officer

Trust & Investments

Name	Title
Patricia L. Culp	Vice President
Keith E. Davis	Vice President
Jeanine D. Knowles	Vice President
Dennis A. Reeve	Vice President
Alan S. Duff	Assistant Vice President
Larry L. Poyser	Assistant Vice President
Kevin M. Reed	Assistant Vice President
Debra L. Rich	Assistant Vice President
Sarah A. Richardson	Assistant Vice President
Peggy L. Terhaar	Assistant Vice President
Marjorie E. Kurtz	Trust Administrator

LAKE CITY BANK OFFICERS (continued)

Office Administration

Jeri L. Yoder-Gluck	Vice President - Regional Manager
Jeannine P. Cooley	Assistant Vice President
Karin A. Steffensmeier	Assistant Vice President

Offices

Akron	L. Jane Murphy	Vice President
Argos	Stanley G. Reinholt	Assistant Vice President
Bremen	Matthew K. Bixel	Vice President
Columbia City	Donald L. Sexton	Vice President
Concord	Steven Colagrossi	Assistant Vice President
Cromwell	Jana L. Miller	Office Manager
Elkhart Beardsley	Samuel M. Bouie	Vice President
Elkhart East	Kathleen M. Enfield	Office Manager
Elkhart Hubbard Hill	Jane E. Miller	Vice President
Elkhart Northwest	Don A. Brincefeild	Vice President
Fort Wayne North	Bruce A. Wright	Vice President - Regional Manager
Fort Wayne Southwest	Robert J. Savage	Vice President
Goshen Downtown	Jane M. Greene	Assistant Vice President
Goshen South	Clarence J. "CJ" Yoder	Vice President
Granger	Gregory A. Fawley	Office Manager
Greentown	Donna L. Graham	Assistant Vice President
Huntington	Joseph E. Blomeke	Vice President
Kendallville East	L. Duane Smith	Vice President
	Mark R. Rensner	Office Manager
LaGrange	Cathy I. Hefty	Assistant Vice President
Ligonier Downtown	Gaylord A. West	Vice President
	Lori I. Cunningham	Assistant Office Manager
Ligonier South	Craig R. Atz	Vice President
	Nanceen P. Briggs	Office Manager
Logansport	J. Bradley Glasson	Assistant Vice President
Medaryville	Elaine C. Parish	Assistant Vice President
Mentone	Karen A. Francis	Vice President
Middlebury	Ryan E. Bender	Office Manager
Milford	Brenda S. Peterson	Office Manager
Mishawaka	Robert J. DeCola	Vice President - Regional Manager
	Tricia D. Peffley	Assistant Office Manager
Nappanee	Jeffery W. Krusenklaus	Office Manager
North Webster	Jeanne G. Bowen	Vice President
Peru	Linda L. Rodgers	Assistant Vice President
Pierceton	Lisa L. Hockemeyer	Assistant Vice President
Plymouth	Michael D. Burroughs	Vice President - Regional Manager
	Carol D. Brown	Assistant Office Manager
Roann	Merrill A. Templin	Assistant Vice President
Rochester	Phyllis M. Biddinger	Office Manager
Shipshewana	Michele D. Grimm	Office Manager
	Sarah Miller-Bontrager	Assistant Office Manager
Silver Lake	Tammy D. Shafer	Office Manager
Syracuse	Amanda Russell	Office Manager
Wabash North	Merrill A. Templin	Assistant Vice President
Warsaw Downtown	Rosemary K. Baumgardner	Assistant Vice President
Warsaw East	Pamela F. Messmore	Vice President
Warsaw West	Shelly R. Fraley	Office Manager
Winona Lake	Allan L. Disbro	Vice President
Winona Lake East	Linda M. Riley	Office Manager