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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) of the
Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004

Commission file number 0-11487

LAKELAND FINANCIAL CORPORATION

Indiana	35-1559596
(State of incorporation)	(I.R.S. Employer Identification No.)

202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46581-1387
(Address of principal executive offices)

Telephone (574) 267-6144

Securities registered pursuant to Section 12(b) of the Act: None Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve 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.[ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes X No___

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sales price quoted on the Nasdaq Stock Market on June 30, 2004, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $176,379,946.

Number of shares of common stock outstanding at February 23, 2005: 5,910,249

DOCUMENTS INCORPORATED BY REFERENCE

Part III - Portions of the Proxy Statement for the Annual Meeting of Shareholders dated as of March 11, 2005 are incorporated by reference into Part III hereof.

LAKELAND FINANCIAL CORPORATION
Annual Report on Form 10-K
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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 subsidiary, Lake City Ban k(the "Bank"), an Indiana state bank headquartered in Warsaw, Indiana. Also included in the consolidated financial statements is LCB Investments Limited, a wholly-owned subsidiary of Lake City Bank, which is a Bermuda corporation that manages a portion of the Bank's investment portfolio. All intercompany transactions and balances are eliminated in consolidation.

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. In trust, the Bank recognizes a wholly-owned subsidiary, LCB Investments Limited, 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. 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, commercial and agricultural lending, direct and indirect consumer lending, real estate mortgage lending, retail and merchant credit card services, corporate cash management services, retirement services, bond administration, safe deposit box service and trust and brokerage services.

The Bank's main banking office is located at 202 East Center Street, Warsaw, Indiana. As of December 31, 2004, the Bank had 43 offices in twelve counties throughout northern Indiana.

Market Overview. While the Company operates in twelve counties, it currently defines operations by four primary geographical markets. They are the South Region, which includes Kosciusko and portions of contiguous counties; the North Region, which includes portions of Elkhart and St. Joseph Counties, the Central Region, which includes portions of Elkhart County and contiguous counties; and the East Region, which includes Allen and DeKalb Counties. The South Region includes the city of Warsaw, which is the location of the Company's headquarters. The Company has had a presence in this region since 1872. It has been in the North and Central Regions, which includes the cities of Elkhart, South Bend and Goshen, since 1990. The Company opened its first office in the East Region, which includes the cities of Fort Wayne and Auburn, in 1999.

The Company believes that these are well-established and fairly diverse economic regions. The Company's markets include a mix of industrial and service companies with no business or industry concentrations. Furthermore, no single industry or employer dominates any of the markets. Fort Wayne represents the largest population center served by the Company with a population of 206,000, according to 2000 U.S. Census Bureau data. South Bend, with a 2000 population of 108,000, is the second largest city served by the Company. Elkhart, with a 2000 population of 52,000, is the third largest city that the Company currently serves. As a result of the presence of offices in twelve counties that are widely dispersed, no single city or industry represents an undue concentration.

Expansion Strategy. The Company's expansion strategy is driven primarily by the potential for increased penetration in existing markets where opportunities for market share growth exists. Additionally, the Company considers growth in new markets with a close geographic proximity to its current operations. These markets are considered when the Company believes they would be receptive to its strategic plan to deliver broad based financial services with a local flavor. Since the early 1990's, the Company has focused on growth through de novo branching in locations that management believes have potential for creating new market opportunities or for further penetrating existing markets. The Company also acquired the Fort Wayne, Indiana office of Indiana Capital Management Bank & Trust in late 2003 to augment the existing trust business and further penetrate the Fort Wayne market. In new markets, the Company believes it is critical to attract experienced local management with a similar philosophy in order to provide a basis for success.

The Company also considers opportunities beyond current markets when the Company's board of directors and management believes that the opportunity will provide a desirable strategic fit without posing undue risk. The Company does not currently have any definitive understandings or agreements for any acquisitions or de novo expansion.

Products and Services. The Company is a full service commercial bank and provides commercial, retail, trust and investment services to its customers. Commercial products include commercial loans and technology-driven solutions to commercial customers' cash management needs such as internet business banking and on-line cash management services in addition to retirement services, bond administration and health savings account services. Retail banking clients are provided a wide array of traditional retail banking services, including lending, deposit and investment services. Retail lending programs are focused on mortgage loans, home equity lines of credit and traditional retail installment loans. The Company provides credit card services to retail and commercial customers through its retail card program and merchant processing activity. The Company also has an Honors Private Banking program that is positioned to serve the more financially sophisticated customer with a menu including brokerage and trust services, executive mortgage programs and access to financial planning seminars and programs. The Bank's Prospero Program is dedicated to serving the expanding financial needs of the Latino community. The Company provides trust clients with traditional personal and corporate trust services. The Company also provides retail brokerage services, including an array of financial and investment products such as annuities and life insurance.

Forward-looking Statements

This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the use of words such as "believe," "expect," "anticipate," "plan," "intend," "estimate," "may," "will," "would," "could," "should" or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries include, but are not limited to, the following:

- The strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations which may be less favorable than expected and may result in, among other things, a deterioration in the credit quality and value of the Company's assets.

- The economic impact of past and any future terrorist attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks.

- The effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters.

- The effects of changes in interest rates (including the effects of changes in the rate of prepayments of the Company's assets) and the policies of the Board of Governors of the Federal Reserve System.

- The ability of the Company to compete with other financial institutions as effectively as the Company currently intends due to increases in competitive pressures in the financial services sector.

- The ability of the Company to obtain new customers and to retain existing customers.

- The timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet.

- Technological changes implemented by the Company and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to the Company and its customers.

- The ability of the Company to develop and maintain secure and reliable electronic systems.

- The ability of the Company to retain key executives and employees and the difficulty that the Company may experience in replacing key executives and employees in an effective manner.

- Consumer spending and saving habits, which may change in a manner that affects the Company's business adversely.

- Business combinations and the integration of acquired businesses, which may be more difficult or expensive than expected.

- The costs, effects and outcomes of existing or future litigation.

- Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board.

- The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning the Company and its business, including other factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

Business Developments

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 Statutory Trust II (the "Trust"), a statutory business trust, was formed under Connecticut law pursuant to a trust agreement dated October 1, 2003 and a certificate of trust filed with the Connecticut Secretary of State on October 1, 2003. Through a private placement, the trust issued $30.0 million in trust preferred securities. The Trust exists for the exclusive purposes of (i) issuing the trust securities representing undivided beneficial interests in the assets of the 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 are the only assets of the Trust, and payments under the subordinated debentures are the only revenue of the Trust. The Trust has a term of 35 years, but may be terminated earlier as provided in the trust agreement. The Trust is not included in the consolidated Company.

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, commercial and agricultural lending, direct and indirect consumer lending, real estate mortgage lending, retail and merchant credit card services, corporate cash management services, retirement services, bond administration, safe deposit box services and trust and brokerage services. The interest rates for both deposits and loans, as well as the range of services provided, are consistent with those of all banks competing within the Bank's service area.

The Bank competes for loans principally through a high degree of customer contact, timely loan review and approval, market-driven competitive loan pricing in certain situations and the Bank's reputation throughout the region. The Bank believes that its convenience, quality service and high touch, responsive 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 primary service area is northern 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. Also, financial intermediaries such as money market mutual funds and large retailers are not subject to the same regulations and laws that govern the operation of traditional depository institutions and accordingly may have an advantage in competing for funds.

The Bank competes with other major banks for large commercial deposit and loan accounts. The Bank is presently subject to an aggregate maximum loan limit to any single account pursuant to Indiana law of $20.5 million. The Bank currently enforces an internal limit of $14.0 million, which is less than the amount permitted by law. This maximum might occasionally limit the Bank from providing loans to those businesses or personal accounts whose borrowings periodically exceed this amount. In the event this were to occur, the Bank maintains correspondent relationships with other financial institutions. The Bank may participate with other banks in the placement of large borrowings in excess of its lending limit. The Bank is also a member of the Federal Home Loan Bank of Indianapolis in order to broaden its mortgage lending and investment activities and to provide additional funds, if necessary, to support these activities.

Foreign Operations

The 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 other countries. 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, 2004, the Company, including its subsidiaries, had 427 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 and employees can no longer accrue new benefits under that plan. 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.

Internet Website

The Company maintains an Internet site at www.lakecitybank.com. The Company makes available free of charge on this site its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission. The Company's Code of Conduct and the charters of its various committees of the Board of Directors are also available on the website.

SUPERVISION AND REGULATION

General

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

Federal and state laws and regulations generally applicable to financial institutions regulate, among other things, the scope of business, the kinds and amounts of investments, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers and consolidations and the payment of dividends. This system of supervision and regulation establishes a comprehensive framework for the respective operations of the Company and its subsidiaries and is intended primarily for the protection of the FDIC-insured deposits and depositors of the Bank, rather than shareholders.

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, nor does it restate all of the requirements of those that are described. As such, the following is qualified in its entirety by reference to applicable law. Any change in statutes, 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 of 1956, 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 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.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including 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. In approving interstate acquisitions, 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 that 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 generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that 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 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." This authority would permit the Company to engage in a variety of banking-related businesses, including the operation of a thrift, consumer finance, equipment leasing, the operation of a computer service bureau (including software development), and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and 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 underwriting and sales, merchant banking 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. As of the date of this filing, the Company has neither applied for nor received approval to operate as a financial holding company.

Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances at 10% ownership.

Capital Requirements. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines. If capital levels fall below the minimum required 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 assets weighted according to risk; 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% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. 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 loan servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus certain other debt and equity instruments that 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, 2004, the Company had regulatory capital in excess of the Federal Reserve's minimum requirements.

Dividend Payments. The Company's ability to pay dividends to its shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As an Indiana corporation, the Company is subject to the limitations of the Indiana General Business Corporation Law, which prohibit the Company from paying dividends if the Company is, or by payment of the dividend would become, insolvent, or if the payment of dividends would render the Company unable to pay its debts as they become due in the usual course of business. Additionally, policies of the Federal Reserve caution that a bank holding company should not pay cash dividends that exceed its net income or that 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 an Indiana-chartered bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the DFI, the chartering authority for Indiana banks, and the FDIC, designated by federal law as the primary federal regulator of state-chartered, FDIC-insured banks that, like the Bank, are not members of the Federal Reserve System ("non-member banks").

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, 2004, BIF assessments ranged from 0% of deposits to 0.27% of deposits. For the semi-annual assessment period beginning January 1, 2005, BIF assessment rates will continue to range from 0% of deposits to 0.27% of deposits.

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 until the final maturity of such obligations in 2019. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. During the year ended December 31, 2004, the FICO assessment rate for BIF and SAIF members was approximately 0.02% of deposits.

Supervisory Assessments. All Indiana banks are required to pay supervisory assessments to the DFI to fund the operations of the DFI. The amount of the assessment is calculated on the basis of the bank's total assets. During the year ended December 31, 2004, the Bank paid supervisory assessments to the DFI totaling $102,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. The FDIC has established the following minimum capital standards for state-chartered FDIC-insured non-member 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% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. For purposes of these capital standards, the components of Tier 1 capital and total capital are the same as those for bank holding companies discussed above.

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, 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.

Further, federal law and regulations provide various incentives for financial institutions to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a financial institution that is "well-capitalized" may qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities and may qualify for expedited processing of other required notices or applications. Additionally, one of the criteria that determines a bank holding company's eligibility to operate as a financial holding company is a requirement that all of its financial institution subsidiaries be "well-capitalized." Under the regulations of the FDIC, in order to be "well-capitalized" a financial institution must maintain a ratio of total capital to total risk-weighted assets of 10% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6% or greater and a ratio of Tier 1 capital to total assets of 5% or greater.

Federal law also 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 "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, 2004: (i) the Bank was not subject to a directive from the FDIC to increase its capital to an amount in excess of the minimum regulatory capital requirements; (ii) the Bank exceeded its minimum regulatory capital requirements under FDIC capital adequacy guidelines; and (iii) the Bank was "well-capitalized," as defined by FDIC regulations.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. 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 Bank's 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, 2004. As of December 31, 2004, approximately $23.2 million was available to be paid as dividends 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, on investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by the Bank. 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, to principal shareholders of the Company and to "related interests" of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or the Bank or a principal shareholder 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 that 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 required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. 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 permitted only in those states that authorize such expansion.

State Bank Investments and Activities. The Bank generally is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Indiana law. However, 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 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.

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 and regular checking accounts), as follows: for transaction accounts aggregating $47.6 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of $47.6 million, the reserve requirement is $1.218 million plus 10% of the aggregate amount of total transaction accounts in excess of $47.6 million. The first $7.0 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

While the Company's chief decision-makers monitor the revenue streams of the various Company products and services, the identifiable segments operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's financial service operations are considered by management to be aggregated in one reportable operating segment -- commercial banking.

GUIDE 3 INFORMATION

On the pages that follow are tables that 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 Items 7 & 8, below, herein incorporated by reference.

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

	2004			2003		
	Average Balance	Interest Income	Yield (1)	Average Balance	Interest Income	Yield (1)
ASSETS						
Earning assets:						
Loans:						
Taxable (2)(3)	$ 921,807	$ 49,087	5.33%	$ 839,797	$ 46,861	5.58%
Tax exempt (1)	9,127	381	4.17	7,758	430	5.54
Investments: (1)						
Available for sale	281,870	11,642	4.13	271,161	14,118	5.21
Short-term investments	8,806	132	1.50	11,882	120	1.01
Interest bearing deposits	3,643	52	1.43	6,134	68	1.11
Total earning assets	1,225,253	61,294	5.00%	1,136,732	61,597	5.42%
Nonearning assets:						
Cash and due from banks	50,890	0		46,394	0	
Premises and equipment	25,715	0		25,810	0	
Other nonearning assets	41,423	0		40,062	0	
Less allowance for loan losses	(10,568)	0		(9,909)	0	
Total assets	$ 1,332,713	$ 61,294		$ 1,239,089	$ 61,597	

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 35 percent tax rate for 2004 and 2003. 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.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 2004 and 2003, are included as taxable loan interest income.

(3) Nonaccrual loans are included in the average balance of taxable loans.

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

	2003			2002		
	Average Balance	Interest Income	Yield (1)	Average Balance	Interest Income	Yield (1)
ASSETS						
Earning assets:						
Loans:						
Taxable (2)(3)	$ 839,797	$ 46,861	5.58%	$ 766,962	$ 49,083	6.40%
Tax exempt (1)	7,758	430	5.54	3,935	279	7.09
Investments: (1)						
Available for sale	271,161	14,118	5.21	274,155	15,677	5.72
Short-term investments	11,882	120	1.01	12,672	191	1.51
Interest bearing deposits	6,134	68	1.11	4,283	70	1.61
Total earning assets	1,136,732	61,597	5.42%	1,062,007	65,300	6.15%
Nonearning assets:						
Cash and due from banks	46,394	0		42,904	0	
Premises and equipment	25,810	0		24,469	0	
Other nonearning assets	40,062	0		28,032	0	
Less allowance for loan losses	(9,909)	0		(8,662)	0	
Total assets	$ 1,239,089	$ 61,597		$ 1,148,750	$ 65,300	

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 35 percent tax rate for 2003 and 2002. 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.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 2003 and 2002, are included as taxable loan interest income.

(3) Nonaccrual loans are included in the average balance of taxable loans.

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

	2004			2003		
	Average Balance	Interest Expense	Yield	Average Balance	Interest Expense	Yield
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Savings deposits	$ 68,593	$ 83	0.12%	$ 61,053	$ 232	0.38%
Interest bearing checking accounts	358,945	3,109	0.87	301,328	3,214	1.07
Time deposits:						
In denominations under $100,000	216,764	6,129	2.83	203,196	6,153	3.03
In denominations over $100,000	181,904	4,076	2.24	230,417	4,480	1.94
Miscellaneous short-term borrowings	148,562	1,556	1.05	118,109	1,110	0.94
Long-term borrowings and subordinated debentures	46,384	1,880	4.05	53,892	2,948	5.47
Total interest bearing liabilities	1,021,152	16,833	1.65%	967,995	18,137	1.87%
Noninterest bearing liabilities and stockholders' equity:						
Demand deposits	207,592	0		173,716	0	
Other liabilities	8,533	0		10,069	0	
Stockholders' equity	95,436	0		87,309	0	
Total liabilities and stockholders' equity	$ 1,332,713	$ 16,833		$ 1,239,089	$ 18,137	
Net interest differential - yield on average daily earning assets		$ 44,461	3.63%		$ 43,460	3.82%

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

	2003			2002		
	Average Balance	Interest Expense	Yield	Average Balance	Interest Expense	Yield
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Savings deposits	$ 61,053	$ 232	0.38%	$ 53,792	$ 404	0.75%
Interest bearing checking accounts	301,328	3,214	1.07	231,712	3,592	1.55
Time deposits:						
In denominations under $100,000	203,196	6,153	3.03	203,531	7,491	3.68
In denominations over $100,000	230,417	4,480	1.94	224,437	5,604	2.50
Miscellaneous short-term borrowings	118,109	1,110	0.94	146,619	2,552	1.74
Long-term borrowings and subordinated debentures	53,892	2,948	5.47	46,287	2,915	6.30
Total interest bearing liabilities	967,995	18,137	1.87%	906,378	22,558	2.49%
Noninterest bearing liabilities and stockholders' equity:						
Demand deposits	173,716	0		150,226	0	
Other liabilities	10,069	0		13,093	0	
Stockholders' equity	87,309	0		79,053	0	
Total liabilities and stockholders' equity	$ 1,239,089	$ 18,137		$ 1,148,750	$ 22,558	
Net interest differential - yield on average daily earning assets		$ 43,460	3.82%		$ 42,742	4.02%

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

	YEAR ENDED DECEMBER 31,					
	2004 Over (Under) 2003 (1)			2003 Over (Under) 2002 (1)		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST AND LOAN FEE INCOME (2)						
Loans:						
Taxable	$ 4,434	$ (2,208)	$ 2,226	$ 4,407	$ (6,629)	$ (2,222)
Tax exempt	68	(117)	(49)	223	(72)	151
Investments:						
Available for sale	539	(3,015)	2,476)	(170)	(1,389)	(1,559)
Short-term investments	(36)	48	12	(11)	(60)	(71)
Interest bearing deposits	(32)	16	(16)	25	(27)	(2)
Total interest income	4,973	(5,276)	(303)	4,474	(8,177)	(3,703)
INTEREST EXPENSE						
Savings deposits	26	(175)	(149)	49	(221)	(172)
Interest bearing checking accounts	556	(661)	(105)	914	(1,292)	(378)
Time deposits:						
In denominations under $100,000	397	(421)	(24)	(12)	(1,326)	(1,338)
In denominations over $100,000	(1,027)	623	(404)	146	(1,270)	(1,124)
Miscellaneous short-term borrowings	309	137	446	(428)	(1,014)	(1,442)
Long-term borrowings and subordinated debentures	(373)	(695)	(1,068)	444	(411)	33
Total interest expense	(112)	(1,192)	(1,304)	1,113	(5,534)	(4,421)
INCREASE (DECREASE) IN INTEREST DIFFERENTIALS	$ 5,085	$ (4,084)	$ 1,001	$ 3,361	$ (2,643)	$ 718

(1) The earning assets and interest bearing liabilities used to calculate interest differentials are based on average daily balances for 2004, 2003 and 2002. 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 35 percent tax rate for 2004, 2003 and 2002. 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 expense.

ANALYSIS OF SECURITIES
(in thousands of dollars)

The amortized cost and the fair value of securities as of December 31, 2004, 2003 and 2002 were as follows:

	2004		2003		2002	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:						
U.S. Treasury securities	$ 1,003	$ 989	$ 0	$ 0	$ 5,143	$ 5,338
U.S. Government agencies and corporations	23,042	22,885	17,234	17,280	11,371	11,946
Mortgage-backed securities	210,997	208,961	213,071	211,142	216,619	222,036
State and municipal securities	51,682	53,747	51,138	52,945	33,534	34,785
Total debt securities available for sale	$ 286,724	$ 286,582	$ 281,443	$ 281,367	$ 266,667	$ 274,105

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, 2004, 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:				
US Treasury securities				
Book value	$ 0	$ 989	$ 0	$ 0
Yield	0.00%	3.38%	0.00%	0.00%
Government agencies and corporations				
Book value	0	22,885	0	0
Yield	0.00%	3.99%	0.00%	0.00%
Mortgage-backed securities				
Book value	0	12,549	60,357	136,055
Yield	0.00%	5.47%	5.59%	5.44%
State and municipal securities				
Book value	100	1,552	6,354	45,741
Yield	2.65%	3.42%	4.56%	4.65%
Total debt securities available for sale:				
Book value	$ 100	$ 37,975	$ 66,711	$ 181,796
Yield	2.65%	4.45%	5.55%	5.22%

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 35 percent tax rate.
(2) The maturity distribution of mortgage-backed securities was based upon anticipated payments as computed by using the historic average payment speed from date of issue.

There were no investments in securities of any one issuer, other than the U.S. Government and its agencies that exceeded 10% of stockholders' equity at December 31, 2004.

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, 2004, 2003, 2002, 2001 and 2000 was as follows:

	2004	2003	2002	2001	2000
Commercial loans:					
Taxable	$ 784,591	$ 667,672	$ 619,963	$ 534,645	$ 487,125
Tax exempt	6,369	7,785	4,974	2,544	2,374
Total commercial loans	790,960	675,457	624,937	537,189	489,499
Real estate mortgage loans	54,361	44,172	47,325	47,409	52,883
Installment loans	53,138	58,722	75,836	95,724	129,838
Line of credit and credit card loans	104,927	92,653	74,719	58,058	46,808
Subtotal loans	1,003,386	871,004	822,817	738,380	719,028
Less: Allowance for loan losses	10,754	10,234	9,533	7,946	7,124
Net deferred loan fees	167	122	141	157	152
Net loans	$ 992,465	$ 860,648	$ 813,143	$ 730,277	$ 711,752

The real estate mortgage loan portfolio included construction loans totaling $6,719, $3,932, $2,540, $2,354 and $3,626 as of December 31, 2004, 2003, 2002, 2001 and 2000. 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 maturity of each principal payment. The following table indicates the scheduled maturities of the loan portfolio as of December 31, 2004.

	Commercial	Real Estate	Installment	Line of Credit and Credit Card	Total	Percent
Original maturity of one day	$ 497,378	$ 325	$ 185	$ 101,517	$ 599,405	59.8%
Other within one year	88,083	11,993	19,581	0	119,657	11.9
After one year, within five years	190,875	9,780	31,277	0	231,932	23.1
Over five years	7,472	32,203	2,095	3,410	45,180	4.5
Nonaccrual loans	7,152	60	0	0	7,212	0.7
Total loans	$ 790,960	$ 54,361	$ 53,138	$ 104,927	$ 1,003,386	100.0%

A portion of the loans is 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, 2004 amounted to $240,073 and $36,889.

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, 2004, 2003, 2002, 2001 and 2000.

	2004	2003	2002	2001	2000
PART A - PAST DUE ACCRUING LOANS (90 DAYS OR MORE)					
Real estate mortgage loans	$ 117	$ 160	$ 0	$ 170	$ 398
Commercial and industrial loans	2,633	2,912	3,245	0	7,635
Loans to individuals for household, family and other personal expenditures	28	119	142	94	171
Loans to finance agriculture production and other loans to farmers	0	0	0	0	0
Total past due loans	2,778	3,191	3,387	264	8,204
PART B - NONACCRUAL LOANS					
Real estate mortgage loans	60	101	106	59	37
Commercial and industrial loans	7,152	452	4,110	2,175	169
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 past due loans	7,212	553	4,216	2,234	206
PART C - TROUBLED DEBT RESTRUCTURED LOANS	0	0	0	0	1,127
Total nonperforming loans	$ 9,990	$ 3,744	$ 7,603	$ 2,498	$ 9,537

Nonearning assets of the Company include nonperforming loans (as indicated above), nonaccrual investments, other real estate and repossessions, which amounted to $10,264 at December 31, 2004.

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

PART A - CONSUMER LOANS

Consumer installment loans, except those loans that are secured by real estate, are not placed on 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. Interest not recorded on nonaccrual loans is referenced in Footnote 4 in Item 8 below.

As of December 31, 2004, there were $7.2 million of loans on nonaccrual status, some of which were also on impaired status. There were $9.3 million of loans 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.

As of December 31, 2004 and 2003, there were no loans renegotiated as troubled debt restructurings.

PART D - OTHER NONPERFORMING ASSETS

Management is of the opinion that there are no significant foreseeable losses relating to nonperforming assets, as defined in the preceding table, or classified loans, 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 nearly all of the Bank's commercial, industrial, agri-business and agricultural real estate mortgage, real estate construction mortgage and consumer loans are made within its basic service area.

Basis For Determining Allowance For Loan Losses:

The allowance is an amount that management believes will be adequate to absorb probable incurred credit losses relating to specifically identified loans based on an evaluation, as well as other probable incurred losses inherent in the loan portfolio. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to repay. Management also considers trends in adversely classified loans based upon a monthly review of those credits. An appropriate level of general allowance is determined after considering the following: application of historical loss percentages, emerging market risk, commercial loan focus and large credit concentration, new industry lending activity and general economic conditions.

Based upon these policies and objectives, $1.2 million, $2.3 million and $3.1 million were charged to the provision for loan losses and added to the allowance for loan losses in 2004, 2003 and 2002.

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, 2004, 2003, 2002, 2001 and 2000.

	2004	2003	2002	2001	2000
Amount of loans outstanding, December 31,	$ 1,003,219	$ 870,882	$ 822,676	$ 738,223	$ 718,876
Average daily loans outstanding during the year ended December 31,	$ 930,934	$ 847,555	$ 770,897	$ 729,750	$ 679,198
Allowance for loan losses, January 1,	$ 10,234	$ 9,533	$ 7,946	$ 7,124	$ 6,522
Loans charged-off					
Commercial	630	1,261	1,268	569	200
Real estate	20	47	0	0	30
Installment	271	353	509	868	483
Credit cards and personal credit lines	73	113	98	103	35
Total loans charged-off	994	1,774	1,875	1,540	748
Recoveries of loans previously charged-off					
Commercial	121	21	270	3	45
Real estate	13	0	0	16	0
Installment	129	188	128	113	93
Credit cards and personal credit lines	28	12	8	5	6
Total recoveries	291	221	406	137	144
Net loans charged-off	703	1,553	1,469	1,403	604
Provision for loan loss charged to expense	1,223	2,254	3,056	2,225	1,206
Balance, December 31,	$ 10,754	$ 10,234	$ 9,533	$ 7,946	$ 7,124
Ratio of net charge-offs during the period to average daily loans outstanding					
Commercial	0.05%	0.15%	0.13%	0.08%	0.02%
Real estate	0.00	0.00	0.00	0.00	0.00
Installment	0.02	0.02	0.05	0.10	0.06
Credit cards and personal credit lines	0.01	0.01	0.01	0.01	0.01
Total	0.08%	0.18%	0.19%	0.19%	0.09%
Ratio of allowance for loan losses to nonperforming assets	104.76%	236.46%	123.15%	192.58%	73.83%

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, 2004, 2003, 2002, 2001 and 2000.

	2004		2003		2002	
	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	$ 8,696	78.84%	$ 8,634	77.56%	$ 7,824	75.96%
Real estate	136	5.40	110	5.06	123	5.74
Installment	398	5.29	440	6.72	573	9.20
Credit cards and personal credit lines	789	10.47	696	10.66	563	9.10
Total allocated allowance for loan losses	10,019	100.00%	9,880	100.00%	9,083	100.00%
Unallocated allowance for loan losses	735		354		450	
Total allowance for loan losses	$ 10,754		$ 10,234		$ 9,533	

	2001		2000	
	Allowance For Loan Losses	Loans as Percentage of Gross Loans	Allowanc For Loan Losses	Loans as Percentage of Gross Loans
Allocated allowance for loan losses				
Commercial	$ 6,412	72.77%	$ 5,205	68.09%
Real estate	127	6.40	132	7.34
Installment	728	12.95	974	18.04
Credit cards and personal credit lines	431	7.88	352	6.53
Total allocated allowance for loan losses	7,698	100.00%	6,663	100.00%
Unallocated allowance for loan losses	248		461	
Total allowance for loan losses	$ 7,946		$ 7,124	

ANALYSIS OF DEPOSITS
(in thousands of dollars)

The average daily deposits for the years ended December 31, 2004, 2003 and 2002, and the average rates paid on those deposits are summarized in the following table:

	2004		2003		2002	
	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid
Demand deposits	$ 207,592	0.00%	$ 173,716	0.00%	$ 150,226	0.00%
Savings and transaction accounts:						
Regular savings	68,593	0.12	61,053	0.38	53,792	0.75
Interest bearing checking	358,945	0.87	301,328	1.07	231,712	1.55
Time deposits:						
Deposits of $100,000 or more	181,904	2.24	230,417	1.94	224,437	2.50
Other time deposits	216,764	2.83	203,196	3.03	203,531	3.68
Total deposits	$ 1,033,798	1.30%	$ 969,710	1.45%	$ 863,698	1.98%

As of December 31, 2004, time certificates of deposit will mature as follows:

	$100,000 or more		Other	
Within three months	$ 81,069	37.54%	$ 36,132	16.55%
Over three months, within six months	66,281	30.69	31,737	14.53
Over six months, within twelve months	34,297	15.88	35,140	16.09
Over twelve months	34,311	15.89	115,351	52.83
Total time certificates of deposit	$ 215,958	100.00%	$ 218,360	100.00%

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 Item 7, below, 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 material 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, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Percent of net income to:			
Average daily total assets	1.09%	1.12%	1.08%
Average daily stockholders' equity	15.24%	15.88%	15.64%
Percentage of dividends declared per common share to basic earnings per weighted average number of common shares outstanding (5,867,705 shares in 2004, 5,819,916 shares in 2003 and 5,813,984 shares in 2002)	33.87%	31.93%	31.92%
Percentage of average daily stockholders' equity to average daily total assets	7.16%	7.05%	6.88%

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 and other short-term borrowings maturing within one year. 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.

	2004	2003	2002
Outstanding at year end			
Securities sold under agreements to repurchase	$ 88,057	$ 102,601	$ 124,969
Other short-term borrowings	$ 75,000	$ 55,000	$ 26,000
Approximate average interest rate at year end			
Securities sold under agreements to repurchase	0.62%	0.79%	1.03%
Other short-term borrowings	1.95%	1.19%	1.52%
Highest amount outstanding as of any month end during the year			
Securities sold under agreements to repurchase	$ 90,007	$ 108,270	$ 139,857
Other short-term borrowings	$ 75,000	$ 55,000	$ 40,000
Approximate average outstanding during the year			
Securities sold under agreements to repurchase	$ 84,907	$ 97,808	$ 116,214
Other short-term borrowings	$ 45,423	$ 10,386	$ 20,414
Approximate average interest rate during the year			
Securities sold under agreements to repurchase	0.64%	0.83%	1.49%
Other short-term borrowings	1.60%	1.33%	2.38%

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. Other short-term borrowings consist of Federal Home Loan Bank advances.

ITEM 2. PROPERTIES

The Company conducts its operations from the following locations:

Branches/Headquarters			
Main/Headquarters	202 East Center St.	Warsaw	IN
Warsaw Drive-up	East Center St.	Warsaw	IN
Akron	102 East Rochester	Akron	IN
Argos	100 North Michigan	Argos	IN
Auburn	1220 East 7th St.	Auburn	IN
Bremen	1600 State Road 331	Bremen	IN
Columbia City	601 Countryside Dr.	Columbia City	IN
Concord	4202 Elkhart Rd.	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 North Nappanee St.	Elkhart	IN
Fort Wayne North	302 East DuPont Rd.	Fort Wayne	IN
Fort Wayne Northeast	10411 Maysville Rd.	Fort Wayne	IN
Fort Wayne Southwest	10429 Illinois Rd.	Fort Wayne	IN
Fort Wayne Downtown	200 East Main St., Suite 600	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
Huntington	1501 North Jefferson St.	Huntington	IN
Kendallville East	631 Professional Way	Kendallville	IN
LaGrange	901 South Detroit	LaGrange	IN
Ligonier Downtown	222 South Cavin St.	Ligonier	IN
Ligonier South	1470 U.S. Highway 33 South	Ligonier	IN
Medaryville	Main St.	Medaryville	IN
Mentone	202 East Main St.	Mentone	IN
Middlebury	712 Wayne Ave.	Middlebury	IN
Milford	State Road 15 North	Milford	IN
Mishawaka	5015 North Main St.	Mishawaka	IN
Nappanee	202 West Market St.	Nappanee	IN
North Webster	644 North Main St.	North Webster	IN
Pierceton	202 South First St.	Pierceton	IN
Plymouth	862 East Jefferson St.	Plymouth	IN
Rochester	507 East 9th St.	Rochester	IN
Shipshewana	895 North Van Buren St.	Shipshewana	IN
Silver Lake	102 Main St.	Silver Lake	IN
South Bend Northwest	21113 Cleveland Rd.	South Bend	IN
Syracuse	502 South Huntington	Syracuse	IN
Warsaw East	3601 Commerce Dr.	Warsaw	IN
Warsaw North	420 Chevy Way	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 Milford, Winona Lake East and Fort Wayne Downtown offices. In addition, the Company leases the real estate for its three 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 at 110 South High St., Warsaw, Indiana, and 114-118 East Market St., Warsaw, Indiana, which it uses for various offices, a building at 113 East Market St., Warsaw, Indiana, which it uses for office and computer facilities, and a building at 109 South Buffalo St., Warsaw, Indiana, which it uses for training and development. The Company also leases from third parties facilities in Warsaw, Indiana, for the storage of supplies and in Elkhart, Indiana, for computer facilities.

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 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
2004				
Trading prices (per share)*				
Low	$33.800	$30.740	$28.310	$31.410
High	$40.900	$34.460	$34.490	$38.051
Dividends declared (per share)	$ 0.21	$ 0.21	$ 0.21	$ 0.21
2003				
Trading prices (per share)*				
Low	$33.510	$29.510	$24.400	$23.000
High	$37.469	$34.400	$31.220	$25.750
Dividends declared (per share)	$ 0.19	$ 0.19	$ 0.19	$ 0.19

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

The common stock of the Company began being quoted on The Nasdaq Stock Market under the symbol LKFN in August, 1997. On December 31, 2004, the Company had approximately 514 shareholders of record and estimates that it has approximately 2,400 shareholders in total.

The Company paid dividends as set forth in the table above. The Company's ability to pay dividends to shareholders is largely dependent upon the dividends it receives from the Bank, and the Bank is subject to regulatory limitations on the amount of cash dividends it may pay. See "Business - Supervision and Regulation - The Company - Dividend Payments" and "Business - Supervision and Regulation - The Bank - Dividend Payments" for a more detailed description of these limitations.

The following table provides information about purchases by the Company and its affiliates during the quarter ended December 31, 2004 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/04-10/31/04	204	$ 35.30	0	$ 0.00
11/01/04-11/30/04	0	0.00	0	0.00
12/01/04-12/31/04	0	0.00	0	0.00
Total	204	$ 35.30	0	$ 0.00

The shares purchased during the periods were credited to the deferred share accounts of seven non-employee directors under the Company's directors' deferred compensation plan.

ITEM 6. SELECTED FINANCIAL DATA

	2004	2003	2002	2001	2000
	(in thousands except share and per share data)				
Interest income	$ 60,005	$ 60,336	$ 64,335	$ 76,615	$ 80,050
Interest expense	16,833	18,137	22,558	39,230	45,030
Net interest income	43,172	42,199	41,777	37,385	35,020
Provision for loan losses	1,223	2,254	3,056	2,225	1,206
Net interest income after provision for loan losses	41,949	39,945	38,721	35,160	33,814
Other noninterest income	15,571	14,909	12,894	11,449	10,469
Net gain on sale of branches	0	0	0	753	0
Net gains on sale of real estate mortgages held for sale	987	3,018	1,914	1,232	504
Net securities gains (losses)	0	500	55	120	0
Noninterest expense	(36,660)	(37,679)	(34,698)	(33,857)	(31,349)
Income before income tax expense	21,847	20,693	18,886	14,857	13,438
Income tax expense	7,302	6,828	6,520	4,744	4,116
Net income	$ 14,545	$ 13,865	$ 12,366	$ 10,113	$ 9,322
Basic weighted average common shares outstanding	5,867,705	5,819,916	5,813,984	5,813,984	5,813,984
Basic earnings per common share	$ 2.48	$ 2.38	$ 2.13	$ 1.74	$ 1.60
Diluted weighted average common shares outstanding	6,064,077	6,001,449	5,958,386	5,841,196	5,813,999
Diluted earnings per common share	$ 2.40	$ 2.31	$ 2.08	$ 1.73	$ 1.60
Cash dividends declared	$ 0.84	$ 0.76	$ 0.68	$ 0.60	$ 0.52

ITEM 6. SELECTED FINANCIAL DATA (continued)

Balances at December 31,	2004	2003	2002 (in thousands)	2001	2000
Total assets	$ 1,453,122	$ 1,271,414	$ 1,249,060	$ 1,139,013	$ $1,150,485
Total loans	$ 1,003,219	$ 870,882	$ 822,676	$ 738,223	$ 718,876
Total deposits	$ 1,115,399	$ 926,391	$ 913,325	$ 793,380	$ 845,329
Total short-term borrowings	$ 185,650	$ 184,761	$ 184,968	$ 232,117	$ 200,078
Long-term borrowings	$ 10,046	$ 30,047	$ 31,348	$ 11,389	$ 11,433
Subordinated debentures	$ 30,928	$ 30,928	$ 20,619	$ 20,619	$ 20,619
Total stockholders' equity	$ 101,765	$ 90,022	$ 83,880	$ 73,534	$ 64,973

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

OVERVIEW

Lakeland Financial Corporation is the holding company for Lake City Bank. The Company is headquartered in Warsaw, Indiana and operates 43 offices in twelve counties in northern Indiana. The Company earned $14.5 million for the year 2004 versus $13.9 million for 2003, an increase of 4.9%. The increase was driven by a $1.0 million decrease in the provision for loan losses, a $1.0 million decrease in noninterest expense and a $973,000 increase in net interest income. Offsetting these positive impacts was a $1.9 million decrease in non-interest income, driven by a $2.0 million decrease in net gains on the sale of mortgages held for sale. The Company earned $13.9 million for 2003 versus $12.4 million for 2002, an increase of 12.1%. The increase was driven by a $3.6 million increase in noninterest income, an $802,000 decrease in the provision for loan losses and a $422,000 increase in net interest income. Offsetting these positive impacts was a $3.0 million increase in noninterest expense, driven by a $804,000 expense related to debt extinguishment costs and an other real estate owned impairment of $300,000.

Basic earnings per share for the year 2004 was $2.48 per share versus $2.38 per share for 2003 and $2.13 for 2002. Diluted earnings per share reflect the potential dilutive impact of stock options granted under an employee stock option plan. Diluted earnings per share for the year ended 2004 was $2.40 per share versus $2.31 per share for the year ended 2003 and $2.08 for the year ended 2002.

RESULTS OF OPERATIONS

2004 versus 2003

The Company reported record net income of $14.5 million in 2004, an increase of $680,000, or 4.9%, versus net income of $13.9 million in 2003. Net interest income increased $973,000, or 2.3%, to $43.2 million versus $42.2 million in 2003. Net interest income increased due to a decrease in interest expense on interest bearing checking accounts and long-term borrowings, as well as growth in commercial loans, which offset some of the effect of the declining interest rates during the year. Despite growth in earning assets, interest income decreased $331,000, or 0.6%, from $60.3 million in 2003 to $60.0 million in 2004. The decrease was driven primarily by a 33 basis point reduction in the tax equivalent yield on average earning assets over the year. Interest expense decreased $1.3 million, or 7.2%, from $18.1 million in 2003 to $16.8 million in 2004. The decrease was primarily the result of a 21 basis point decrease in the Company's daily cost of funds over the year. The Company had a net interest margin of 3.63% in 2004 versus 3.82% in 2003. Average earning assets increased by $88.5 million from $1.1 billion in 2003 to $1.2 billion in 2004. The primary driver was an $83.4 million increase in the average daily loan balance. Deposits increased to fund the loan growth during 2004, driven primarily by increases of $57.6 million in the average daily interest bearing checking account balances and increases of $33.9 million in the average daily demand deposit balances. Management believes that the growth in the loan portfolio will likely continue as a result of our continuing strategic focus on commercial lending and in conjunction with the general expansion and penetration of the geographical markets the Company serves.

Nonaccrual loans were $7.2 million, or 0.72% of total loans, at year end versus $553,000, or 0.06% of total loans, at the end of 2003. There were four relationships totaling $9.3 million classified as impaired as of December 31, 2004 versus two relationships totaling $3.0 million at the end of 2003. The increase in both nonaccrual and impaired loans was due primarily to one commercial credit totaling $6.1 million. The borrower filed for chapter 11 bankruptcy late in the third quarter of 2004 and is in the process of determining its future business strategy. Borrower collateral and the personal guarantees of its principals support the credit. Net charge-offs were $703,000 in 2004 versus $1.6 million in 2003, representing 0.08% and 0.18% of average daily loans in 2004 and 2003. Total nonperforming loans were $10.0 million, or 1.00% of total loans, at year end 2004 versus $3.7 million, or 0.43% of total loans, at the end of 2003. The provision for loan loss expense was $1.2 million in 2004, resulting in an allowance for loan losses at December 31, 2004 of $10.8 million, which represented 1.07% of the loan portfolio, versus a provision for loan loss expense of $2.3 million in 2003 and an allowance for loan losses of $10.2 million at the end of 2003, or 1.18% of the loan portfolio. The lower provision in 2004 versus 2003 was attributable to a number of factors, but was primarily a result of the decrease in the level of charge-offs from $1.6 million in 2003 to $703,000 in 2004. The level of loan loss provision is also influenced by the overall growth in the loan portfolio and other factors related to this growth, such as emerging market risk, commercial loan focus and large credit concentration, new industry lending activity, general economic conditions and historical loss percentages. In addition, management gives consideration to changes in the allocation for specific watch list credits in determining the appropriate level of the loan loss provision. Management's overall view on current credit quality was also a factor in the determination of the provision for loan losses. 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 $16.6 million in 2004 versus $18.4 million in 2003, a decrease of $1.9 million, or 10.1%. The decrease was driven by a $2.0 million, or 67.3%, decrease in gains on sale of mortgages, from $3.0 million in 2003 to $987,000 in 2004 as mortgage originations decreased from $143.2 million in 2003 to $59.3 million in 2004, a decrease of 58.6%. As experienced by the industry generally, this decrease was a result of the decreased level of mortgage activity during 2004 resulting from consumers having refinanced their homes in 2002 and 2003 when rates were falling. Additionally, noninterest income decreased due to a $500,000 decrease in gains on securities sold. Partially offsetting these decreases were increases of $645,000, or 27.2%, in trust and brokerage fees and $472,000, or 27.0%, in merchant card fee income. The increase in trust and brokerage fees was driven by the Company's December 1, 2003 acquisition of Indiana Capital Management while the increase in merchant card fees was driven by higher volume activity in interchange and merchant fee income.

Noninterest expense decreased $1.0 million, or 2.7% from $37.7 million in 2003 to $36.7 million in 2004. Equipment expense decreased from $2.5 million in 2003 to $2.1 million in 2004, primarily as a result of lower depreciation expense and personal property tax expenses. Depreciation expense was lower as a result of technology asset additions related to system upgrades driven by Y2K issues; these assets have now fully depreciated. Credit card interchange fees increased from $1.0 million in 2003 to $1.4 million in 2004 driven by higher processing costs charged by VISA and increased credit card usage. In addition, during 2003, the Company redeemed its existing high fixed rate subordinated debentures and reissued variable rate subordinated debentures at a lower rate to better match long-term assets and liabilities. The redemption resulted in a loss on extinguishment of $804,000.

As a result of these factors, income before income tax expense increased $1.2 million, or 5.6%, from $20.7 million in 2003 to $21.8 million in 2004. Income tax expense was $7.3 million in 2004 versus $6.8 million in 2003. Income tax as a percentage of income before tax was 33.4% in 2004 versus 33.0% in 2003. The higher tax rate resulted from a decreased percentage of the Company's income being derived from tax-advantaged sources. Net income increased $680,000, or 4.9%, to $14.5 million in 2004 versus $13.9 million in 2003. Basic earnings per share in 2004 was $2.48, an increase of 4.2%, versus

$2.38 in 2003. The Company's net income performance represented a 16.2% return on January 1, 2004, stockholders' equity versus 16.5% in 2003. The net income performance resulted in a 1.09% return on average daily assets in 2004 versus 1.12% in 2003.

2003 versus 2002

The Company reported record net income of $13.9 million in 2003, an increase of $1.5 million, or 12.1%, versus net income of $12.4 million in 2002. Net interest income increased $422,000, or 1.0%, to $42.2 million versus $41.8 million in 2002. Net interest income increased due to a decrease in interest expense on time deposits and short-term borrowings, as well as growth in commercial loans, which offset some of the effect of the declining interest rates during the year. Despite growth in earning assets, interest income decreased $4.0 million, or 6.2%, from $64.3 million in 2002 to $60.3 million in 2003. The decrease was driven primarily by a 73 basis point reduction in the tax equivalent yield on average earning assets over the year. Interest expense decreased $4.4 million, or 19.6%, from $22.6 million in 2002 to $18.1 million in 2003. The decrease was primarily the result of a 55 basis point decrease in the Company's daily cost of funds over the year. The Company had a net interest margin of 3.82% in 2003 versus 4.02% in 2002. Average earning assets increased by $74.7 million and totaled $1.1 billion in 2003 and 2002. The primary driver was a $76.7 million increase in the average daily loan balance. Deposits increased to fund the loan growth during 2003, driven primarily by increases of $69.6 million in the average daily interest bearing checking account balances and increases of $23.5 million in the average daily demand deposit balances. During the fourth quarter of 2003, the Company completed the issuance of floating rate trust preferred securities and the redemption of its existing fixed rate trust preferred securities. The interest rate on subordinated debentures, which are tied to the trust preferred securities, changed from a 9% fixed rate to a variable rate of 305 basis points over the 3 month LIBOR rate in the fourth quarter of 2003.

Nonaccrual loans were $553,000, or 0.06% of total loans, at year end 2003 versus $4.2 million, or 0.51% of total loans, at the end of 2002. There were two relationships totaling $3.0 million classified as impaired as of December 31, 2003 versus nine relationships totaling $7.3 million at the end of 2002. One commercial credit represented $2.9 million and $3.2 million of this amount in 2003 and 2002. The renewal of this loan was complicated as more than one bank was involved, and it was past maturity, however at year end 2003 the loan was current as to principal and interest. The loan first became delinquent in 2002 and the maturity was not extended. The decrease was the result of payments on six commercial loans, including one loan of $1.7 million. Net charge-offs were $1.6 million in 2003 versus $1.5 million in 2002, representing 0.18% and 0.19% of average daily loans in 2003 and 2002. Total nonperforming loans were $3.7 million, or 0.43% of total loans, at year end 2003 versus $7.6 million, or 0.92% of total loans, at the end of 2002. The provision for loan loss expense was $2.3 million in 2003, resulting in an allowance for loan losses at December 31, 2003 of $10.2 million, which represented 1.18% of the loan portfolio, versus a provision for loan loss expense of $3.1 million in 2002 and an allowance for loan losses of $9.5 million in 2002, or 1.16% of the loan portfolio. The lower provision in 2003 versus 2002 was attributable to a number of factors, but was primarily a result of the decrease in nonperforming loans during 2003. The continued challenging economic conditions during 2003 and the resulting impact on asset quality as evidenced by the percentage of internally classified loans in 2003 was also a factor in the determination of the provision for loan losses. The Company's management continued 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 $18.4 million in 2003 versus $14.9 million in 2002, an increase of $3.6 million, or 24.0%. The increase was driven by a $1.1 million, or 57.7%, increase in gains on sale of mortgages, from $1.9 million in 2002 to $3.0 million in 2003. This increase was a result of the increased level of mortgage activity during 2003. Additionally, noninterest income increased due to a $558,000 reduction in the charge for non-cash impairment of the Company's mortgage servicing rights, a $624,000 increase in the earnings on life insurance, a $445,000 increase in gains on securities sold and a $411,000 increase in operating lease income. The increase in earnings on life insurance occurred primarily due to the life insurance not being put into place until the fourth quarter of 2002.

Noninterest expense increased $3.0 million, or 8.6% from $34.7 million in 2002 to $37.7 million in 2003. Salaries and wages increased $1.3 million, or 7.2%, to $19.8 million in 2003 versus $18.5 million in 2002. This increase was attributable to normal salary increases, increases related to the employee 401(k) plan, higher health care costs and staff additions. Net occupancy expense increased from $2.2 million in 2002 to $2.4 million in 2003 as a result of increased spending to refurbish several offices and higher real estate tax expense. Included in other expense was a $300,000 write-down on an ORE property, which was subsequently sold by year end. During the fourth quarter of 2003, the Company completed the issuance of floating rate trust preferred securities and the redemption of its existing fixed rate trust preferred securities. The redemption resulted in a loss on extinguishment of $804,000.

As a result of these factors, income before income tax expense increased $1.8 million, or 9.6%, from $18.9 million in 2002 to $20.7 million in 2003. Income tax expense was $6.8 million in 2003 versus $6.5 million in 2002. Income tax as a percentage of income before tax was 33.0% in 2003 versus 34.5% in 2002. The lower tax rate resulted from increased investment in tax advantaged securities and investments and an increase in the level of income derived from the investment subsidiary. Net income increased $1.5 million, or 12.1%, to $13.9 million in 2003 versus $12.4 million in 2002. Basic earnings per share in 2003 was $2.38, an increase of 11.7%, versus $2.13 in 2002. The Company's net income performance represented a 16.5% return on January 1, 2003, stockholders' equity versus 16.8% in 2002. The net income performance resulted in a 1.12% return on average daily assets in 2003 versus 1.08% in 2002.

FINANCIAL CONDITION

As of December 31, 2004, the Company had 43 offices serving twelve counties in northern Indiana. The Company added no new offices during 2004. Since 1996, the Company has added seventeen new offices through acquisition and internal growth. The Company will consider future acquisition and expansion opportunities with an emphasis on markets that it believes would be receptive to its business philosophy of local, independent banking. The Company sold five branches in its south region during the third quarter of 2001 in order to help position the Company to focus on growth opportunities in its core northern markets, which are anchored by the cities of Warsaw, Fort Wayne, Elkhart and South Bend, Indiana.

Total assets of the Company were $1.453 billion as of December 31, 2004, an increase of $181.7 million, or 14.3%, when compared to $1.271 billion as of December 31, 2003.

Total cash and cash equivalents increased by $46.4 million, or 80.8%, to $103.9 million at December 31, 2004 from $57.4 million at December 31, 2003. The increase was primarily attributable to funding needs associated with a corresponding increase in the Company's deposits.

Total securities available for sale increased by $5.2 million, or 1.9%, to $286.6 million at December 31, 2004 from $281.4 million at December 31, 2003. The increase was a result of a number of activities in the securities portfolio. Paydowns of $60.2 million were received, and the amortization of premiums, net of the accretion of discounts, was $3.6 million. Maturities, calls and sales of securities totaled $3.0 million. The fair value of the securities increased $67,000 as a result of a flattening of the yield curve during the second half of 2004. These portfolio decreases were offset by securities purchases totaling $72.0 million. The investment portfolio is managed to limit the Company's exposure to risk and contains mostly collateralized mortgage obligations and other securities which are either directly or indirectly backed by the federal government or a local municipal government. The investment portfolio did not contain any corporate debt instruments or trust preferred instruments as of December 31, 2004.

Real estate mortgages held for sale decreased by $440,000, or 12.8%, to $3.0 million at December 31, 2004 from $3.4 million at December 31, 2003. The balance of this asset category is subject to a high degree of variability depending on, among other things, recent mortgage loan rates and the timing of loan sales into the secondary market. During 2004, $59.3 million in real estate mortgages were originated for sale and $59.8 million in mortgages were sold, compared to $143.2 million and $150.2 million in 2003.

Total loans, excluding real estate mortgages held for sale, increased by $132.3 million or 15.2%, to $1.003 billion at December 31, 2004 from $870.9 million at December 31, 2003. The mix of loan types within the Company's portfolio extended a trend toward a higher percentage of the total loan portfolio being in commercial loans. The portfolio breakdown at year end 2004 reflected 79% commercial, 5% real estate and 16% consumer loans compared to 78% commercial, 5% real estate and 17% consumer loans at December 31, 2003.

At December 31, 2004, the allowance for loan losses was $10.8 million, or 1.07% of total loans outstanding, versus $10.2 million, or 1.18%, of total loans outstanding at December 31, 2003. The process of identifying probable credit losses is a subjective process. Therefore, the Company maintains a general allowance to cover probable incurred credit losses within the entire portfolio. The methodology management uses to determine the adequacy of the loan loss reserve includes the following considerations.

The Company has a relatively high percentage of commercial and commercial real estate loans, most of which are extended to small or medium-sized businesses. Commercial loans represent higher dollar loans to fewer customers and therefore higher credit risk. Pricing is adjusted to manage the higher credit risk associated with these types of loans. The majority of fixed rate mortgage loans, which represent increased interest rate risk, are sold in the secondary market, as well as some variable rate mortgage loans. The remainder of the variable rate mortgage loans and a small number of fixed rate mortgage loans are retained. Management believes the allowance for loan losses is at a level commensurate with the overall risk exposure of the loan portfolio. However, as a result of the slow economic recovery, certain borrowers may experience difficulty and the level of nonperforming loans, charge-offs, and delinquencies could rise and require further increases in the provision for loan losses.

Loans are charged against the allowance for loan losses when management believes that the uncollectability of the principal is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that management believes will be adequate to absorb probable incurred credit losses relating to specifically identified loans based on an evaluation, as well as other probable incurred losses inherent in the loan portfolio. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to repay. Management also considers trends in adversely classified loans based upon a monthly review of those credits. An appropriate level of general allowance is determined after considering the following factors: application of historical loss percentages, emerging market risk, commercial loan focus and large credit concentrations, new industry lending activity and general economic conditions. Federal regulations require insured institutions to classify their own assets on a regular basis. The regulations provide for three categories of classified loans - substandard, doubtful and loss. The regulations also contain a special mention category. Special mention is defined as loans that do not currently expose an insured institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. Assets classified as substandard or doubtful require the institution to establish specific allowances for loan losses. If an asset or portion thereof is classified as loss, the insured institution must either establish specified allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge off such amount. At December 31, 2004, on the basis of management's review of the loan portfolio, the Company had loans totaling $56.2 million on the classified loan list versus $70.4 million on December 31, 2003. As of December 31, 2004, the Company had $32.1 million of assets classified special mention, $23.3 million classified as substandard, $751,000 classified as doubtful and $0 classified as loss as compared to $41.9 million, $27.7 million, $869,000 and $0 at December 31, 2003.

Allowance estimates are developed by management in consultation with regulatory authorities, taking into account actual loss experience, adjusted for current economic conditions. Allowance estimates are considered a prudent measurement of the risk in the Company's loan portfolio and are applied to individual loans based on loan type. In accordance with FASB Statements 5 and 114, the allowance is provided for losses that have been incurred as of the balance sheet date and is based on past events and current economic conditions, and does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

The Company has experienced growth in total loans over the last three years of $180.5 million, or 22.0%. The concentration of this loan growth was in the commercial loan portfolio. Commercial loans comprised 79%, 78% and 76% of the total loan portfolio at December 31, 2004, 2003 and 2002. Traditionally, this type of lending may have more credit risk than other types of lending because of the size and diversity of the credits. The Company manages this risk by adjusting its pricing to the perceived risk of each individual credit and by diversifying the portfolio by customer, product, industry and geography. Management believes that it is prudent to continue to provide for loan losses in a manner consistent with its historical approach due to loan growth described above and current economic conditions.

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 2004 versus $2.3 million in 2003. At December 31, 2004, total nonperforming loans increased by $6.3 million to $10.0 million from $3.7 million at December 31, 2003. Loans delinquent 90 days or more that were included in the accompanying financial statements as accruing totaled $2.8 million versus $3.2

million at December 31, 2003. Total impaired loans increased by $6.3 million to $9.3 million at December 31, 2004 from $3.0 million at December 31, 2003. The increases in nonperforming loans and impaired loans resulted primarily from the addition of a single commercial credit of $6.1 million. The borrower filed for chapter 11 bankruptcy late in the third quarter of 2004 and is in the process of determining its future business strategy. Borrower collateral and the personal guarantees of its principals support the credit. The total loans that are delinquent 90 days or more include one commercial credit for $2.6 million and $2.9 million in 2004 and 2003. The renewal of this loan has been complicated as more than one bank is involved, and it remains past maturity. The loan first became delinquent in 2002 and the maturity has not been extended. While this loan is current as to principal and interest, there can be no assurance that it will remain current given the circumstances involved. The impaired loan total includes $6.7 million in nonaccrual loans. The Company allocated $1.7 million and $456,000 of the allowance for loan losses to the impaired loans in 2004 and 2003. A loan is impaired when full payment under the original 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 may be 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.

The Company does not believe that the increase in total nonperforming loans is indicative of a trend and that the overall decrease in classified loans is a better reflection of the continued focus on enforcement of a strong credit environment, an aggressive position on loan work-out situations and a general improvement in the regional economic conditions. The allowance for loan loss to total loans percentage decreased from 1.18% in 2003 to 1.07% in 2004. Despite these factors, the Company does not believe that it has experienced any meaningful change in overall asset quality. 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.

Total deposits increased by $189.0 million, or 20.4%, to $1.115 billion at December 31, 2004 from $926.4 million at December 31, 2003. The increase resulted from increases of $133.8 million in certificates of deposit, $51.5 million in demand deposit accounts, $49.1 million in NOW accounts and $5.3 million in savings accounts. Offsetting these increases were declines of $32.1 million in Investors' Money Market accounts and $18.6 million in money market accounts.

Total short-term borrowings increased by $889,000, or 0.5%, to $185.7 million at December 31, 2004 from $184.8 million at December 31, 2003. The increase resulted from a $20.0 million increase in Federal Home Loan Bank advances combined with decreases of $14.5 million in securities sold under agreements to repurchase, $4.0 million in federal fund purchases and $567,000 in U.S. Treasury demand notes.

The Company believes that a strong, appropriately 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 a total risk-based capital ratio of 12.3% and a Tier I risk-based capital ratio of 11.3% as of December 31, 2004. These ratios met or exceeded the Federal Reserve's "well-capitalized" minimums of 10.0% and 6.0%, 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 13.0% to $101.8 million as of December 31, 2004 from $90.0 million as of December 31, 2003. The increase in 2004 resulted from net income of $14.5 million less the following factors:

- cash dividends of $4.9 million,
- an unfavorable change in the AFS adjustment for the market valuation on securities held for sale of $18,000, net of tax,
- a positive minimum pension liability adjustment of $33,000, net of tax,
- $165,000 for the acquisition of treasury stock,
- $2.1 million related to stock option exercises and stock compensation expense and
- $335,000 of treasury stock sold and distributed under the deferred directors' plan.

Total stockholders' equity increased by 7.3% to $90.0 million as of December 31, 2003, from $83.9 million as of December 31, 2002. The increase in 2003 resulted from net income of $13.9 million less the following factors:

- cash dividends of $4.4 million,
- an unfavorable change in the AFS adjustment for the market valuation on securities held for sale of $4.9 million, net of tax,
- a negative minimum pension liability adjustment of $331,000, net of tax,
- $169,000 for the acquisition of treasury stock,
- $819,000 related to stock option exercises and stock compensation expense and
- $152,000 of treasury stock sold and distributed under the deferred directors' plan.

In addition, effective January 1, 2003, the Company's directors' deferred compensation plan was amended to no longer permit diversification outside of Company stock and to require that settlement of deferred balances be made in shares of Company stock. In accordance with EITF 97-14: "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested," on the date of the plan change, the $949,000 current value of the liability for the Company shares was transferred to additional paid-in-capital from other liabilities. Subsequent payments under the directors' deferred plan of $165,000 and $204,000 were made to paid-in-capital under the new plan for 2004 and 2003.

The 2004 AFS adjustment reflected a 216 basis point increase in the two to five year U.S. Treasury rates during 2004. 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.

Other than those indicated in this management's 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.

Critical Accounting Policies

Certain of the Company's accounting policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Some of the facts and circumstances which could affect these judgments include changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses, determining the fair value of securities and other financial instruments, and the valuation of mortgage servicing rights.

The allowance for loan losses may be difficult to estimate due to changes in economic conditions, the financial condition of borrowers and the fact that there is not always a specific event that triggers a loss. The Company believes that the allowance for loan losses has closely reflected actual loss experience and expects this to continue as adjustments are made for changes occurring in the facts and circumstances affecting the analysis. Additional information detailing the analysis process and methodology is included previously under "Financial Condition."

Determining fair value for securities and other financial instruments may be difficult to estimate due to changing market conditions, difficulty in predicting these market changes and changes in interest rates. The Company determines fair value by obtaining current market prices from a third party servicer for the individual securities held at the end of each month and appling these rates to the securities. The Company believes the pricing obtained and rates applied in determining the fair value of securities and other financial instruments has been an accurate estimate of the instruments fair value at a point in time. The Company monitors the prices obtained and reviews the rates applied in determining fair value on a regular basis, making adjustments when situations warrant and expects the accuracy of these estimates at a point in time to continue.

The valuation of mortgage servicing rights is a complicated estimate due to the number of assumptions that could be used to value the servicing retained and the servicing rights themselves are not tangible. The Company does not have a large mortgage origination business and feels that the business closely reflects industry standards for the amount of mortgage origination activity it conducts. Industry software is used to value the servicing rights, and there are no assumptions applied that could be considered outside industry standards. Fair value is calculated on a loan by loan basis and is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions, specifically prepayment speeds and current interest rates. Adjustments to the fair value of the mortgage servicing rights are made monthly.

Newly Issued But Not Yet Effective Accounting Standards:

FASB Statement 123 (revised 2004), Share-Based Payment requires expensing of stock options effective for fiscal periods beginning after June 15, 2005. The Company plans to adopt this standard as of July 1, 2005 and will begin expensing any unvested stock options at that time. The Company does not anticipate the adoption of this standard will have any material effect on the Company's financial condition or results of operations.

Emerging Issues Task Force (EITF) Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides application guidance that should be used to determine when an investment is considered impaired, whether that impairment is other-than-temporary, and the recognition of an impairment loss. The guidance also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. In September 2004, the FASB delayed the accounting requirements of EITF 03-1 until additional implementation guidance is issued and goes into effect.

No other new accounting standards have been issued that are not yet effective that would have a material impact on the Company's financial condition or results of operations.

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 $44.9 million of funding in 2005.

In addition to these primary sources of funds, management has several secondary sources available to meet potential funding requirements. As of December 31, 2004, the Company had $110.0 million in Federal Fund lines with correspondent banks and may borrow up to $100.0 million at the Federal Home Loan Bank of Indianapolis. The Company has its securities in the available for sale (AFS) portfolio. Therefore the Company may sell securities to meet funding demands. Management believes that the securities in the AFS portfolio are of high quality and would therefore be marketable. Approximately 81% of this portfolio is comprised of Federal agency securities or mortgage-backed securities directly or indirectly backed by the Federal government. In addition, 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 2004, cash and cash equivalents increased $46.4 million from $57.4 million as of December 31, 2003 to $103.9 million as of December 31, 2004. The primary driver of this increase was an increase in deposit balances of $189.0 million. Other sources of funds were proceeds from maturities, calls and principal paydowns of securities of $63.2 million and proceeds from loan sales of $60.2 million. The primary use of funds was a $133.0 million increase in net loans, which is net of approximately $59.3 million in loans originated and sold during 2004. Other uses of funds were purchases of securities of $72.0 million and payments on long-term borrowings of $20.0 million.

During 2003, cash and cash equivalents decreased $29.7 million from $87.1 million as of December 31, 2002 to $57.4 million as of December 31, 2003. The primary driver of this decrease was an increase in net loans of $51.7 million, which is net of approximately $143.2 million of loans originated and sold during 2003. A falling rate environment during the first half of the year contributed to an increase in demand for residential real estate mortgage loans. Other uses of funds were purchases of securities of $162.5 million and payments on long-term borrowings of $31.9 million. Sources of funds were proceeds from loan sales of $152.1 million and proceeds from maturities, calls and principal paydowns of securities of $132.4 million. Other sources of funds were proceeds from long-term borrowings of $40.9 million, proceeds from the sale of securities of $14.3 million and a net increase in deposits of $13.1 million.

During 2002, cash and cash equivalents increased $8.0 million from $79.1 million as of December 31, 2001 to $87.1 million as of December 31, 2002. A $119.9 million increase in deposit balances was the primary driver behind this change. Other sources of funds included proceeds from the sale of loans of $93.1 million, proceeds from calls and maturities of securities totaling $83.4 million and proceeds from long term borrowings of $20.0 million. Uses of funds were purchases of securities of $89.4 million, an increase in net loans of $86.0 million, which is net of approximately $93.8 million of loans originated and sold during 2002, and an increase in other assets of $11.0 million due primarily to payments for an investment in bank owned life insurance totaling $13.4 million.

The following tables disclose information on the maturity of the Company's contractual long-term obligations and commitments. Certificates of deposit listed are those with original maturities of 1 year or more.

	Payments Due by Period				
	Total	One year or less	1-3 years	4-5 years	After 5 years
	(in thousands)				
Certificates of deposit	$ 173,195	$ 75,913	$ 85,862	$ 11,330	$ 90
Long-term debt	10,046	10,000	0	0	46
Operating leases	351	112	198	39	2
Subordinated debentures	30,928	0	0	0	30,928
Total contractual long-term cash obligations	$ 214,520	$ 86,025	$ 86,060	$ 11,369	$ 31,066

	Amount of Commitment Expiration Per Period		
	Total Amount Committed	One year or less	Over one year
	(in thousands)		
Unused loan commitments	$ 475,188	$ 334,599	$ 140,589
Commercial letters of credit	1,883	936	947
Standby letters of credit	8,558	8,558	0
Total commitments and letters of credit	$ 485,629	$ 344,093	$ 141,536

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.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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, 2004, the net interest margin could be expected to decline in a falling interest rate environment and conversely, to increase in a rising rate environment. The low rate environment during 2004 continued to have an adverse affect on the net interest margin. In July of 2004 the Federal Open Market Committee (FOMC) began increasing the target federal funds rate at what they defined as a measured pace. The FOMC increased the target federal funds rate a total of 1.25 percent over the five meetings in the period of August, 2004 through December, 2004, with an additional increase of 0.25 percent in January 2005. These increases had a positive impact on the net interest margin during the later part of 2004. Future changes in the net interest margin will be dependent upon multiple factors including further actions by the FOMC during 2005, competitive pressures in the various markets served, and changes in the structure of the balance sheet in response to customer demands for products and services.

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 repricing GAP ratio as of December 31, 2004 for the next 12 months using a rates unchanged scenario was a negative 8.18% 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. Core deposits such as deposits, interest-bearing checking, savings and money market deposits that have no contractual maturity, are shown under Year 1, however historical experience indicates that some potion of the balances are retained over time. Weighted-average variable rates are based upon rates existing at the reporting date.

	2004 Principal/Notional Amount Maturing in: (in thousands)							
	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total	Fair Value 12/31/2004
Rate sensitive assets:								
Fixed interest rate loans	$ 116,056	$ 67,603	$ 60,685	$ 49,801	$ 48,251	$ 13,733	$ 356,129	$ 357,252
Average interest rate	6.05%	6.24%	6.12%	5.96%	6.02%	6.20%	6.09%	
Variable interest rate loans	$ 610,201	$ 1,192	$ 1,209	$ 1,233	$ 1,889	$ 31,366	$ 647,090	$ 647,025
Average interest rate	5.41%	6.08%	6.12%	6.17%	5.08%	6.13%	5.44%	
Fixed interest rate securities	$ 26,296	$ 17,703	$ 20,480	$ 25,856	$ 28,766	$ 167,117	$ 286,218	$ 286,078
Average interest rate	4.90%	4.16%	4.04%	3.97%	3.93%	4.46%	4.36%	
Variable interest rate securities	$ 59	$ 56	$ 56	$ 56	$ 55	$ 224	$ 506	$ 504
Average interest rate	5.24%	5.28%	5.28%	5.28%	5.25%	4.83%	5.07%	
Other interest-bearing assets	$ 22,714	$ -	$ -	$ -	$ -	$ -	$ 22,714	$ 22,714
Average interest rate	2.07%	-	-	-	-	-	2.07%	
Rate sensitive liabilities:								
Non-interest bearing checking	$ 237,261	$ -	$ -	$ -	$ -	$ -	$ 237,261	$ 237,261
Average interest rate								
Savings & interest bearing checking	$ 443,820	$ -	$ -	$ -	$ -	$ -	$ 443,820	$ 443,820
Average interest rate	0.97%	-	-	-	-	-	0.97%	
Time deposits	$ 284,656	$ 72,426	$ 54,541	$ 9,876	$ 11,871	$ 948	$ 434,318	$ 435,233
Average interest rate	2.44%	3.02%	4.10%	3.64%	4.06%	4.12%	2.82%	
Fixed interest rate borrowings	$ 120,650	$ -	$ -	$ -	$ -	$ 46	$ 120,696	$ 120,649
Average interest rate	1.42%	-	-	-	-	6.15%	1.43%	
Variable interest rate borrowings	$ 75,000	$ -	$ -	$ -	$ -	$ 30,928	$ 105,928	$ 104,336
Average interest rate	1.95%	-	-	-	-	5.18%	2.89%	

	2003 Principal/Notional Amount Maturing in: (in thousands)							
	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total	Fair Value 12/31/2003
Rate sensitive assets:								
Fixed interest rate loans	$ 119,633	$ 65,696	$ 53,759	$ 33,556	$ 38,421	$ 15,955	$ 327,020	$ 332,837
Average interest rate	6.49%	6.56%	6.41%	6.36%	5.92%	6.39%	6.41%	
Variable interest rate loans	$ 506,402	$ 1,274	$ 1,298	$ 1,319	$ 1,314	$ 32,255	$ 543,862	$ 541,890
Average interest rate	4.30%	4.59%	4.59%	4.61%	4.54%	5.06%	4.36%	
Fixed interest rate securities	$ 19,199	$ 19,494	$ 19,689	$ 22,637	$ 27,797	$ 171,936	$ 280,752	$ 280,661
Average interest rate	4.58%	4.46%	4.51%	4.33%	4.18%	4.45%	4.43%	
Variable interest rate securities	$ 200	$ 145	$ 108	$ 83	$ 60	$ 95	$ 691	$ 706
Average interest rate	5.62%	6.58%	5.57%	4.69%	4.25%	3.42%	5.28%	
Other interest-bearing assets	$ 5,144	$ -	$ -	$ -	$ -	$ -	$ 5,144	$ 5,144
Average interest rate	0.98%	-	-	-	-	-	0.98%	
Rate sensitive liabilities:								
Non-interest bearing checking	$ 185,734	$ -	$ -	$ -	$ -	$ -	$ 185,734	$ 185,734
Average interest rate								
Savings & interest bearing checking	$ 440,154	$ -	$ -	$ -	$ -	$ -	$ 440,154	$ 440,154
Average interest rate	0.81%	-	-	-	-	-	0.81%	
Time deposits	$ 175,302	$ 71,067	$ 15,286	$ 28,526	$ 9,372	$ 950	$ 300,503	$ 305,003
Average interest rate	2.07%	2.87%	2.97%	4.87%	3.65%	2.89%	2.63%	
Fixed interest rate borrowings	$ 159,761	$ 10,000	$ -	$ -	$ -	$ 47	$ 169,808	$ 170,089
Average interest rate	1.20%	2.36%	-	-	-	6.15%	1.27%	
Variable interest rate borrowings	$ 45,000	$ -	$ -	$ -	$ -	$ 30,928	$ 75,928	$ 75,974
Average interest rate	1.31% $	-	-	-	-	1.14%	1.24%	

These tables illustrate the Company's growth during 2004 and the effect of the rate cuts during fiscal year 2003. The changes in the balances primarily reflect the growth of the Company's existing offices and acceptance of the one office opened during 2003. The increase in loans during 2004 was driven primarily by strong growth in the Company's commercial loan portfolio. The average interest rates show the effect of the low interest rate environment during the year.

The Company's investment portfolio consists of U.S. Treasury securities, agencies, mortgage-backed securities and municipal bonds. During 2004, purchases in the securities portfolio consisted primarily of agency securities and municipal bonds. As of December 31, 2004, the Company's investment in mortgage-backed securities represented approximately 73% of total securities and consisted of CMOs and mortgage pools issued by Ginnie Mae, Fannie Mae and Freddie Mac. Ginnie Mae, Fannie Mae and Freddie Mac securities are each guaranteed by their respective agencies as to principal and interest. 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, 2004, the securities in the AFS portfolio had approximately a two and one-half year average life with approximately 12% price depreciation in the event of a 300 basis points upward movement. The portfolio had approximately 5% price appreciation in the event of a 300 basis point downward movement in rates. As of December 31, 2004, all mortgage securities were performing in a manner consistent with management's original expectations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS (in thousands except share data)

December 31	2004	2003
ASSETS		
Cash and due from banks	$ 81,144	$ 52,297
Short-term investments	22,714	5,144
Total cash and cash equivalents	103,858	57,441
Securities available for sale (carried at fair value)	286,582	281,367
Real estate mortgages held for sale	2,991	3,431
Loans, net of allowance for loan losses of $10,754 and $10,234	992,465	860,648
Land, premises and equipment, net	25,057	26,157
Bank owned life insurance	16,896	15,453
Accrued income receivable	5,765	5,010
Goodwill	4,970	4,970
Other intangible assets	1,245	1,460
Other assets	13,293	15,477
Total assets	$ 1,453,122	$ 1,271,414
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	$ 237,261	185,734
Interest bearing deposits	878,138	740,657
Total deposits	1,115,399	926,391
Short-term borrowings		
Federal funds purchased	20,000	24,000
Securities sold under agreements to repurchase	88,057	102,601
U.S. Treasury demand notes	2,593	3,160
Other short-term borrowings	75,000	55,000
Total short-term borrowings	185,650	184,761
Accrued expenses payable	7,445	7,804
Other liabilities	1,889	1,461
Long-term borrowings	10,046	30,047
Subordinated debentures	30,928	30,928
Total liabilities	1,351,357	1,181,392
Commitments, off-balance sheet risks and contingencies (Notes 1 and 19)		
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value 5,915,854 shares issued and 5,881,283 outstanding as of December 31, 2004 5,834,744 shares issued and 5,788,263 outstanding as of December 31, 2003	1,453	1,453
Additional paid-in capital	12,463	10,509
Retained earnings	89,864	80,260
Accumulated other comprehensive loss	(1,267)	(1,282)
Treasury stock, at cost (2004 - 34,571 shares, 2003 - 46,481 shares)	(748)	(918)
Total stockholders' equity	101,765	90,022
Total liabilities and stockholders' equity	$ 1,453,122	$ 1,271,414

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

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

Years Ended December 31	2004	2003	2002
NET INTEREST INCOME			
Interest and fees on loans			
Taxable	$ 49,087	$ 46,861	$ 49,083
Tax exempt	287	280	181
Interest and dividends on securities			
Taxable	8,103	10,946	13,205
Tax exempt	2,344	2,061	1,607
Interest on short-term investments	184	188	259
Total interest income	60,005	60,336	64,335
Interest on deposits	13,397	14,079	17,091
Interest on borrowings			
Short-term	1,556	1,110	2,552
Long-term	1,880	2,948	2,915
Total interest expense	16,833	18,137	22,558
NET INTEREST INCOME	43,172	42,199	41,777
Provision for loan losses	1,223	2,254	3,056
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	41,949	39,945	38,721
NONINTEREST INCOME			
Trust and brokerage income	3,015	2,370	2,451
Service charges on deposit accounts	6,917	6,860	6,717
Loan, insurance and service fees	1,945	2,296	1,704
Merchant card fee income	2,219	1,747	1,594
Other income	1,475	1,636	428
Net gains on sales of real estate mortgages held for sale	987	3,018	1,914
Net securities gains	0	500	55
Total noninterest income	16,558	18,427	14,863
NONINTEREST EXPENSE			
Salaries and employee benefits	19,673	19,829	18,501
Net occupancy expense	2,496	2,444	2,174
Equipment costs	2,106	2,538	2,483
Data processing fees and supplies	2,546	2,433	2,226
Credit card interchange	1,397	955	900
Loss on extinguishment of debt	0	804	0
Other expense	8,442	8,676	8,414
Total noninterest expense	36,660	37,679	34,698
INCOME BEFORE INCOME TAX EXPENSE	21,847	20,693	18,886
Income tax expense	7,302	6,828	6,520
NET INCOME	$ 14,545	$ 13,865	$ 12,366
BASIC WEIGHTED AVERAGE COMMON SHARES	5,867,705	5,819,916	5,813,984
BASIC EARNINGS PER COMMON SHARE	$ 2.48	$ 2.38	$ 2.13
DILUTED WEIGHTED AVERAGE COMMON SHARES	6,064,077	6,001,449	5,958,386
DILUTED EARNINGS PER COMMON SHARE	$ 2.40	$ 2.31	$ 2.08

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

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2002	$ 1,453	$ 8,537	$ 62,378	$ 1,835	$ (669)	$ 73,534
Comprehensive income:						
Net income			12,366			12,366
Other comprehensive income, net of tax				2,102		2,102
Comprehensive income						14,468
Cash dividends declared, $.68 per share			(3,925)			(3,925)
Acquisition of treasury stock					(197)	(197)
Balance at December 31, 2002	1,453	8,537	70,819	3,937	(866)	83,880
Comprehensive income:						
Net income			13,865			13,865
Other comprehensive income, net of tax				(5,219)		(5,219)
Comprehensive income						8,646
Cash dividends declared, $.76 per share			(4,424)			(4,424)
Transfer of deferred directors' liability		949				949
Treasury shares purchased under deferred directors' plan (6,022 shares)		169			(169)	0
Treasury stock sold and distributed under deferred directors' plan (6,515 shares)		35			117	152
Stock issued for stock option exercises (20,760 shares)		484				484
Tax benefit of stock option exercises		81				81
Stock compensation expense		254				254
Balance at December 31, 2003	1,453	10,509	80,260	(1,282)	(918)	90,022
Comprehensive income:						
Net income			14,545			14,545
Other comprehensive income, net of tax				15		15
Comprehensive income						14,560
Cash dividends declared, $.84 per share			(4,941)			(4,941)
Treasury shares purchased under deferred directors' plan (4,786 shares)		165			(165)	0
Treasury stock sold and distributed under deferred directors' plan (16,696 shares)		(335)			335	0
Stock issued for stock option exercises (81,110 shares)		1,711				1,711
Tax benefit of stock option exercises		359				359
Stock compensation expense		54				54
Balance at December 31, 2004	$ 1,453	$ 12,463	$ 89,864	$ (1,267)	$ (748)	$ 101,765

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

Years Ended December 31	2004	2003	2002
Cash flows from operating activities:			
Net income	$ 14,545	$ 13,865	$ 12,366
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	2,091	2,210	2,291
Provision for loan losses	1,223	2,254	3,056
Write down of other real estate owned	15	0	0
Amortization of intangible assets	215	154	176
Amortization of loan servicing rights	573	671	452
Net change in loan servicing rights valuation allowance	(154)	(224)	334
Loans originated for sale	(59,341)	(143,230)	(93,751)
Net gain on sales of loans	(987)	(3,018)	(1,914)
Proceeds from sale of loans	60,243	152,118	93,142
Net (gain) loss on sale of premises and equipment	106	(101)	25
Net gain on sales of securities available for sale	0	(500)	(55)
Net securities amortization	3,566	1,549	1,753
Stock compensation expense	54	254	0
Earnings on life insurance	(632)	(692)	(68)
Net change:			
Accrued income receivable	(755)	(11)	442
Accrued expenses payable	(248)	(1,404)	1,666
Other assets	2,641	2,603	2,417
Other liabilities	428	(958)	(680)
Total adjustments	9,038	11,675	9,286
Net cash from operating activites	23,583	25,540	21,652
Cash flows from investing activites:			
Proceeds from sale of securities available for sale	0	14,338	5,771
Proceeds from maturities, calls and principal paydowns of securities available for sale	63,185	132,377	83,371
Purchases of securities available for sale	(72,032)	(162,540)	(89,419)
Purchase of life insurance	(811)	(1,393)	(13,300)
Net increase in total loans	(133,047)	(51,681)	(85,966)
Proceeds from sales of land, premises and equipment	144	159	11
Purchases of land, premises and equipment	(1,241)	(3,627)	(2,843)
Increase in investment in unconsolidated subsidiary	0	(309)	0
Net payments in acquisition	0	(600)	0
Net cash from investing activities	(143,802)	(73,276)	(102,375)
Cash flows from financing activities:			
Net increase in total deposits	189,008	13,066	119,945
Net increase (decrease) in short-term borrowings	889	(207)	(47,149)
Proceeds from long-term borrowings	0	40,928	20,000
Payments on long-term borrowings	(20,001)	(31,920)	(41)
Dividends paid	(4,806)	(4,306)	(3,809)
Proceeds from the sale of common stock	0	152	0
Proceeds from stock option exercise	1,711	484	0
Purchase of treasury stock	(165)	(169)	(197)
Net cash from financing activites	166,636	18,028	88,749
Net change in cash and cash equivalents	46,417	(29,708)	8,026
Cash and cash equivalents at beginning of the year	57,441	87,149	79,123
Cash and cash equivalents at end of the year	$ 103,858	$ 57,441	$ 87,149
Cash paid during the year for:			
Interest	$ 15,663	$ 18,935	$ 22,610
Income taxes	5,587	6,955	7,249
Supplemental non-cash disclosures:			
Loans transferred to other real estate	7	1,922	44
Directors' deferred liability transferred from other liabilities to equity	0	949	0

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 subsidiary, Lake City Bank (the "Bank"), 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, which is a Bermuda corporation that manages a portion of the Bank's investment portfolio. All intercompany transactions and balances are eliminated in consolidation. As further discussed in Note 11, a trust that had previously been consolidated with the Company is now reported separately.

The Company provides financial services through its subsidiary, Lake City Bank, a full-service commercial bank with 43 branch offices in twelve counties in northern Indiana. The Company provides commercial, retail, trust and investment services to its customers. Commercial products include commercial loans and technology-driven solutions to commercial customers' cash management needs such as internet business banking and on-line cash management services. Retail banking clients are provided a wide array of traditional retail banking services, including lending, deposit and investment services. Retail lending programs are focused on mortgage loans, home equity lines of credit and traditional retail installment loans. The Company provides credit card services to retail and commercial customers through its retail card program and merchant processing activity. The Company also has an Honors Private Banking program that is positioned to serve the more financially sophisticated customer with a menu including brokerage and trust services, executive mortgage programs and access to financial planning seminars and programs. The Company's Prospero Program is dedicated to serving the expanding financial needs of the Latino community. The Company provides trust clients with traditional personal and corporate trust services. The Company also provides retail brokerage services, including an array of financial and investment products such as annuities and life insurance. Other financial instruments, which represent potential concentrations of credit risk, include deposit accounts in other financial institutions.

Use of Estimates:

To prepare financial statements in conformity with U.S. 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 loan servicing rights are particularly subject to change.

Cash Flows:

Cash and cash equivalents include 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.

Purchase premiums or discounts are recognized in interest income using the interest method over the terms of the securities or over estimated lives for mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold and recorded on the trade date. Securities are written down to fair value when a decline in fair value is deemed to be other than temporary, as more fully disclosed in Note 2.

The Company does not have any material derivative instruments for presentation nor does the Company participate in any significant hedging activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Real Estate Mortgages Held for Sale:

Loans held for sale are reported at the lower of cost or market on an aggregate basis. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Loan sales occur on the delivery date agreed to in the commitment agreement. The gain or loss on the sale of loans is the difference between the carrying value of the loans sold and the funds received from the sale. The Company retains servicing on the majority of loans sold.

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.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. All mortgage and commercial loans for which collateral is insufficient to cover all principal and accrued interest are reclassified as nonaccrual loans to the extent they are under collateralized, on or before the date when the loan becomes 90 days delinquent. When a loan is classified as a nonaccrual loan, interest on the loan is no longer accrued, 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. 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.

Allowance for Loan Losses:

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Susequent recoveries, if any are credited to the allowance. 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, internal loan grade classifications, 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.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as special mention, substandard or doubtful on the Company's watch list. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the original 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. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is impaired, a portion of the allowance may be 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. Mortgage and commercial loans, when they have been delinquent from 90 to 180 days, are reviewed to determine if a charge-off is necessary, if the related collateral, if any, is not sufficient to offset the indebtedness.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in Limited Partnerships:

Investments in limited partnerships represent the Company's investments in affordable housing projects for the primary purpose of available tax benefits. The Company is a limited partner in these investments and as such, the Company is not involved in the management or operation of such investments. These investments are accounted for using the equity method of accounting. Under the equity method of accounting, the Company records its share of the partnership's earnings or losses in its income statement and adjusts the carrying amount of the investments on the balance sheet. These investments are evaluated for impairment when events indicate the carrying amount may not be recoverable. The investment recorded at December 31, 2004 and 2003 was $431,000 and $500,000.

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. At December 31, 2004 and 2003, the balance of repossessed assets and real estate owned was $274,000 and $584,000 and are included with other assets on the balance sheet.

Land, Premises and Equipment:

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the useful lives of the assets. Premises assets have useful lives between 7 and 40 years. Equipment assets have useful lives between 3 and 10 years.

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 loan type, term and interest rates. Any impairment of a grouping is reported as a valuation allowance. Fair value is calculated on a loan by loan basis and is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions, specifically prepayment speeds and current interest rates.

Bank Owned Life Insurance:

At December 31, 2004 and 2003, the Company owned $16.8 million and $15.5 million of life insurance policies on certain officers to replace group term life insurance for these individuals. At December 31, 2004, the Company also owned $136,000 of variable life insurance on certain officers to fund a deferred compensation plan. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized. Bank owned life insurance is included in other assets in the consolidated financial statements.

Goodwill and Other Intangible Assets:

Goodwill results from prior business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Upon adoption of new accounting guidance in 2002, the Company ceased amortizing goodwill. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified. The effect on net income of ceasing goodwill amortization in 2002 was $274,000, net of tax.

Other intangible assets consist of core deposit intangibles arising from branch acquisitions and trust deposit relationships arising from a trust acquisition. Core deposit intangibles are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which is 12 years. Trust deposit relationships are initially measured at fair value and then amortized on an accelerated method over their estimated useful lives, which is 10 years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Long-term Assets:

Premises and equipment, core deposit and other intangible assets and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Benefit Plans:

The Company has a noncontributory defined benefit pension plan which covered substantially all employees until the plan was frozen effective April 1, 2000. 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. An employee deferred compensation plan is available to certain employees with returns based on investments in mutual funds. The Company maintains a directors' deferred compensation plan. Effective January 1, 2003, the directors' deferred compensation plan was amended to restrict the deferral to be in stock only and deferred directors' fees are included in equity. Prior to amending the plan, deferred directors' fees were included in other liabilities. The Company acquires shares on the open market and records such shares as treasury stock.

Stock Compensation:

Effective December 9, 1997, the Company adopted the Lakeland Financial Corporation 1997 Share Incentive Plan. At its inception 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, 2004, 63,815 were available for future grants. In accordance with SFAS No.123, "Accounting for Stock-Based Compensation," the Company has elected to account for stock-based compensation within the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" and all subsequent amendments and clarifications. Under this method, no compensation cost is recognized for stock options granted at or above fair market value. Compensation cost is recognized for stock option modifications, if applicable. Had compensation expense for the plan been determined based upon fair value at the grant date in accordance with SFAS 123, 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.

	2004	2003	2002
Net income (in thousands) as reporte	$ 14,545	$ 13,865	$ 12,366
Deduct: stock-based compensation expense determined under fair value based method (in thousands)	487	543	669
Pro forma net income (in thousands)	$ 14,058	$ 13,322	$ 11,697
Basic earnings per common share as reported	$ 2.48	$ 2.38	$ 2.13
Pro forma basic earnings per common share	$ 2.40	$ 2.29	$ 2.01
Diluted earnings per common share as reported	$ 2.40	$ 2.31	$ 2.08
Pro forma diluted earnings per common share	$ 2.32	$ 2.22	$ 1.96

The pro forma effects are computed with the black scholes option pricing models, using the following weighted-average assumptions as of the grant date for all options granted to date:

Risk-free interest rate	5.26%	5.26%	5.53%
Expected option life	5.00 years	5.00 years	5.00 years
Expected price volatility	70.32%	73.13%	76.37%
Dividend yield	3.02%	2.85%	2.87%

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes:

Annual consolidated federal and state income tax returns are filed by the Company. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Income tax expense is recorded based on the amount of taxes due on its tax return plus net deferred taxes computed based upon the expected future tax consequences of temporary differences between carrying amounts and tax basis of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Off-Balance Sheet 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. The fair value of standby letters of credit is recorded as a liability during the commitment period in accordance with FASB Interpretation No. 45.

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 2004 and 2003 reflect the acquisition of 34,571 and 46,481 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 and changes in the minimum pension liability, which are also recognized as a separate component of equity.

The components of other comprehensive income and related tax effects are as follows:

	Years Ended December 31,		
	2004	2003	2002
	(in thousands)		
Unrealized holding gain/(loss) on securities available for sale arising during the period	$ (66)	$ (7,014)	$ 3,942
Reclassification adjustment for (gains)/losses included in net income	0	(500)	(55)
Net securities gain /(loss) activity during the period	(66)	(7,514)	3,887
Tax effect	(48)	(2,626)	1,442
Net of tax amount	(18)	(4,888)	2,445
Minimum pension liability adjustment	56	(557)	(588)
Tax effect	23	(226)	(245)
Net of tax amount	33	(331)	(343)
Other comprehensive income, net of tax	$ 15	$ (5,219)	$ 2,102

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 $17.3 million and $14.1 million of cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at year-end 2004 and 2003. 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. These restrictions pose no practical limit on the ability of the Bank or Company to pay dividends at historical levels.

Fair Value of Financial Instruments:

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Industry Segments:

While the Company's chief decision-makers monitor the revenue streams of the various Company products and services, the identifiable segments operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's financial service operations are considered by management to be aggregated in one reportable operating segment.

Adoption of New Accounting Standards:

The Company did not adopt any new accounting standards during 2004.

Newly Issued But Not Yet Effective Accounting Standards:

FASB Statement 123 (revised 2004), Share-Based Payment requires expensing of stock options effective for fiscal periods beginning after June 15, 2005. The Company plans to adopt this standard as of July 1, 2005 and will begin expensing any unvested stock options at that time. The Company does not anticipate the adoption of this standard will have any material effect on the Company's financial condition or results of operations.

Emerging Issues Task Force (EITF) Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides application guidance that should be used to determine when an investment is considered impaired, whether that impairment is other-than-temporary, and the recognition of an impairment loss. The guidance also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. In September 2004, the FASB delayed the accounting requirements of EITF 03-1 until additional implementation guidance is issued and goes into effect.

No other new accounting standards have been issued that are not yet effective that would have a material impact on the Company's financial condition or results of operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) at December 31 is provided in the table below.

	Fair Value	Gross Unrealized Gain	Gross Unrealized Losses
		(in thousands)	
2004			
U.S. Treasury securities	$ 989	$ 0	$ (14)
U.S. Government agencies	22,885	0	(157)
Mortgage-backed securities	208,961	618	(2,654)
State and municipal securities	53,747	2,218	(153)
Total	$ 286,582	$ 2,836	$ (2,978)
2003			
U.S. Government agencies	$ 17,280	$ 51	$ (5)
Mortgage-backed securities	211,142	885	(2,814)
State and municipal securities	52,945	2,004	(197)
Total	$ 281,367	$ 2,940	$ (3,016)

Information regarding the fair value of available for sale debt securities by maturity as of December 31, 2004 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	$ 100
Due after one year through five years	25,426
Due after five years through ten years	6,354
Due after ten years	45,741
	77,621
Mortgage-backed securities	208,961
Total debt securities	$ 286,582

NOTE 2 - SECURITIES (continued)

Security proceeds, gross gains and gross losses for 2004, 2003 and 2002 were as follows:

	2004	2003	2002
		(in thousands)	
Sales and calls of securities available for sale			
Proceeds	$ 2,844	$ 30,154	$ 10,467
Gross gains	0	508	77
Gross losses	0	8	22

Securities with carrying values of $189.0 million and $197.8 million were pledged as of December 31, 2004 and 2003, 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. At year-end 2004 and 2003, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Information regarding securities with unrealized losses as of December 31, 2004 and 2003 is presented below. The tables distribute the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
2004						
U.S. Treasury securities	$ 989	$ 14	$ 0	$ 0	$ 989	$ 14
U.S. Government agencies	22,885	157	0	0	22,885	157
Mortgage-backed securities	110,501	1,326	46,540	1,328	157,041	2,654
State and municipal securities	3,770	37	4,169	116	7,939	153
Total temporarily impaired	$ 138,145	$ 1,534	$ 50,709	$ 1,444	$ 188,854	$ 2,978
2003						
U.S. Government agencies	$ 3,016	$ 5	$ 0	$ 0	$ 3,016	$ 5
Mortgage-backed securities	126,347	2,215	20,637	599	146,984	2,814
State and municipal securities	10,865	183	411	14	11,276	197
Total temporarily impaired	$ 140,228	$ 2,403	$ 21,048	$ 613	$ 161,276	$ 3,016

All of the following are considered to determine whether or not the impairment of these securities is other-than-temporary. All of the securities are backed by the U.S. Government or its agencies or are A rated or better, in the case of non-local municipal securities. None of the securities have call provisions (with the exception of the municipal securities) and payments as originally agreed are being received. There are no concerns of credit losses and there is nothing to indicate that full principal will not be received. Management considers the unrealized losses to be market driven and no loss is expected to be realized unless the securities are sold. The Company does not have a history of actively trading securities, but keeps the securities available for sale should liquidity or other needs develop that would warrant the sale of securities. While these securities are held in the available for sale portfolio, the current intent and ability is to hold them until a recovery in fair value or maturity.

NOTE 3 - LOANS

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

	2004	2003
	(in thousands)	
Commercial and industrial loans	$ 688,211	$ 593,194
Agri-business and agricultural loans	102,749	82,262
Real estate mortgage loans	47,642	40,240
Real estate construction loans	6,719	3,932
Installment loans and credit cards	158,065	151,376
Subtotal	1,003,386	871,004
Less: Allowance for loan losses	(10,754)	(10,234)
Net deferred loan fees	(167)	(122)
Loans, net	$ 992,465	$ 860,648

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

The following is an analysis of the allowance for loan losses for 2004, 2003 and 2002:

	2004	2003	2002
		(in thousands)	
Balance, January 1,	$ 10,234	$ 9,533	$ 7,946
Provision for loan losses	1,223	2,254	3,056
Loans charged-off	(994)	(1,774)	(1,875)
Recoveries	291	221	406
Net loans charged-off	(703)	(1,553)	(1,469)
Balance December 31	$ 10,754	$ 10,234	$ 9,533
Nonaccrual loans	$ 7,212	$ 553	$ 4,216
Interest not recorded on nonaccrual loans	203	183	208
Loans past due 90 days and still accruing	2,778	3,191	3,387

As of December 31, 2004, 2003 and 2002 there were no loans renegotiated as troubled debt restructurings.

Impaired loans were as follows:

	2004	2003
	(in thousands)	
Year-end loans with no allocated allowance for loan losses	$ 0	$ 0
Year-end loans with allocated allowance for loan losses	9,309	3,039
	$ 9,309	$ 3,039
Amount of the allowance for loan losses allocated	$ 1,711	$ 456

	2004	2003	2002
		(in thousands)	
Average of impaired loans during the year	$ 5,606	$ 6,320	$ 10,476
Interest income recognized during impairment	183	226	562
Cash-basis interest income recognized	183	225	555

NOTE 4 - ALLOWANCE FOR LOAN LOSSES (continued)

The Company is not committed to lend additional funds to debtors whose loans have been modified in a troubled debt restructuring. The 2004 and 2003 impaired loan totals included $6.7 million and $127,000 which were also included in the total for nonaccrual loans. Total impaired loans increased by $6.3 million to $9.3 million at December 31, 2004 from $3.0 million at December 31, 2003. The increases in nonperforming loans and impaired loans resulted primarily from the addition of a single commercial credit of $6.1 million. The borrower filed chapter 11 bankruptcy late in the third quarter of 2004 and is in the process of determining its future business strategy. Borrower collateral and the personal guarantees of its principals support this credit. The loans delinquent 90 days or more total included one commercial credit for $2.6 million and $2.9 million in 2004 and 2003. The renewal of this loan has been complicated as more than one bank is involved, and it remains past maturity. The loan first became delinquent in 2002 and the maturity has not been extended. While this loan was current as to principal and interest at December 31, 2005, there can be no assurance that it will remain current given the circumstances involved.

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 $242.9 million and $231.8 million at December 31, 2004 and 2003. The fair value of loan servicing rights was $1.7 million and $1.6 million at December 31, 2004 and 2003. Net loan servicing income/(loss) was $25,000, ($166,000) and ($48,000) for 2004, 2003 and 2002. Information on loan servicing rights follows:

Loan servicing rights:	2004	2003	2002
		(in thousands)	
Beginning of year	$ 2,100	$ 1,677	$ 1,507
Originations	525	1,094	622
Amortization	(573)	(671)	(452)
End of year	$ 2,052	$ 2,100	$ 1,677

Valuation allowance:	2004	2003	2002
		(in thousands)	
Beginning of year	$ 498	$ 722	$ 388
Additions expensed	173	421	913
Reductions credited to expense	(327)	(645)	(579)
End of year	$ 344	$ 498	$ 722

NOTE 6 - LAND, PREMISES AND EQUIPMENT, NET

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

	2004	2003
	(in thousands)	
Land	$ 8,491	$ 8,456
Premises	21,292	21,004
Equipment	14,951	14,830
Total cost	44,734	44,290
Less accumulated depreciation	19,677	18,133
Land, premises and equipment, net	$ 25,057	$ 26,157

The Company had land of $274,000 pending sale at December 31, 2004.

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

There have been no changes in the $5.0 million carrying amount of goodwill since 2002.

Acquired Intangible Assets

	As of December 31, 2004		As of December 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Core deposit	$ 2,032	$ 1,288	$ 2,032	$ 1,139
Trust deposit relationships	572	71	572	5
Total	$ 2,604	$ 1,359	$ 2,604	$ 1,144

Aggregate amortization expense was $215,000, $154,000 and $149,000 for 2004, 2003 and 2002.

Estimated amortization expense for each of the next five years:

	Amount (in thousands)
2005	$ 212
2006	209
2007	206
2008	206
2009	206

NOTE 8 - DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of $100,000, was approximately $216.0 million and $106.4 million at December 31, 2004 and 2003.

At December 31, 2004, the scheduled maturities of time deposits were as follows:

	Amount (in thousands)
Maturing in 2005	$ 284,656
Maturing in 2006	72,426
Maturing in 2007	54,541
Maturing in 2008	9,876
Maturing in 2009	11,871
Thereafter	948
Total time deposits	$ 434,318

NOTE 9 - 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 service 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 2004 and 2003 is as follows:

	2004	2003
	(in thousands)	
Average daily balance during the year	$ 84,907	$ 97,808
Average interest rate during the year	0.64%	0.83%
Maximum month-end balance during the year	$ 90,007	$ 108,270
Securities underlying the agreements at year-end		
Fair value	$ 109,089	$ 115,708

Term	Repurchase Liability	Weighted Average Interest Rate	Collateral at Fair Values
	(in thousands)		(in thousands)
Mortgage-backed Securities:			
On demand	$ 87,670	0.62%	$ 107,670
Over 90 days	387	1.13%	1,419
Total	$ 88,057	0.62%	$ 109,089

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, 2004, 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 10 - BORROWINGS

Long-term borrowings at December 31 consisted of:

	2004	2003
	(in thousands)	
Federal Home Loan Bank of Indianapolis Notes, 3.96%, Due April 9, 2004	$ 0	$ 20,000
Federal Home Loan Bank of Indianapolis Notes, 2.36%, Due December 29, 2005	10,000	10,000
Federal Home Loan Bank of Indianapolis Notes, 6.15%, Due January 15, 2018	46	47
Total	$ 10,046	$ 30,047

All notes have a fixed rate, require monthly interest payments and were secured by residential real estate loans and securities with a carrying value of $111.4 million at December 31, 2004. At December 31, 2004, the Company owned $4.4 million of Federal Home Loan Bank (FHLB) stock, which also secures debts to the FHLB. The Company is authorized to borrow up to $100 million at the FHLB.

Short-term borrowings at December 31 consisted of:

	2004	2003
	(in thousands)	
Federal Home Loan Bank of Indianapolis Notes, 1.53%, Due July 20, 2004	$ 0	$ 10,000
Federal Home Loan Bank of Indianapolis Notes, 1.11%, Due January 30, 2004	0	45,000
Federal Home Loan Bank of Indianapolis Notes, 1.95%, Due February 9, 2005	75,000	0
Total	$ 75,000	$ 55,000

NOTE 10 - BORROWINGS (continued)

Long-term borrowings mature over each of the next five years as follows:

	(in thousands)
2005	$ 10,000
2006	0
2007	0
2008	0
2009	0

NOTE 11 - SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES

In September 1997, Lakeland Capital Trust completed a public offering of two million shares of cumulative trust 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. On October 1, 2003, the subordinated debentures were redeemed and the preferred securities called. Loss on extinguishment of debt of $804,000 was recorded in connection with the call of the preferred securities.

Lakeland Statutory Trust II, a trust formed by the Company, issued $30.0 million of floating rate trust preferred securities on October 1, 2003 as part of a privately placed offering of such securities. The Company issued subordinated debentures to the trust in exchange for the proceeds of the trust. Subject to the Company having received prior approval of the Federal Reserve if then required, the Company may redeem the subordinated debentures, in whole or in part, but in all cases in a principal amount with integral multiples of $1,000, on any interest payment date on or after October 1, 2008 at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures must be redeemed no later than 2033. These securities are considered as Tier I capital (with certain limitations applicable) under current regulatory guidelines. The floating rate of the trust preferred securities and subordinated debentures was 5.610% and 4.205% at December 31, 2004 and 2003. The holding company's investment in the common stock of the trust was $928,000 and is included in other assets.

Prior to 2003, Lakeland Capital Trust was consolidated in the Company's financial statements, with the trust preferred securities issued by the trust reported in liabilities as "guaranteed preferred beneficial interests" and the subordinated debentures eliminated in consolidation. The trust preferred securities issued by Lakeland Capital Trust have been redeemed and are no longer outstanding. The Company issued new securities through Lakeland Statutory Trust II in 2003. Under new accounting guidance, FASB Interpretation No. 46, as revised in December 2003, trusts for a trust preferred offering are no longer consolidated with the Company. Accordingly, the Company does not report the securities issued by Lakeland Statutory Trust II as liabilities, and instead reports as liabilities the subordinated debentures issued by the Company and held by the trust, as these are no longer eliminated in consolidation. Since the amount of the subordinated debentures equals the amount of trust preferred securities and common stock, the effect of no longer consolidating the trust changes certain balance sheet classifications, but not equity or net income. Accordingly, the amounts previously reported as "guaranteed preferred beneficial interest" in liabilities have been recaptioned "subordinated debentures" and continue to be presented in liabilities on the balance sheet.

NOTE 12 - EMPLOYEE BENEFIT PLANS

In April, 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. At December 31, 2004 and 2003, the pension plan recorded a minimum pension liability of $1.8 million and $1.9 million. The Company also maintains a Supplemental Executive Retirement Plan (SERP) for select officers that was established as a funded, non-qualified deferred compensation plan. Only one current officer of the Company is a participant in the plan and there are 7 total participants.

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

	Pension Benefits		SERP Benefits	
	2004	2003	2004	2003
	(in thousands)		(in thousands)	
Change in benefit obligation:				
Beginning benefit obligation	$ 2,642	$ 2,279	$ 1,457	$ 1,412
Interest cost	149	155	83	90
Actuarial (gain)/loss	(114)	306	(13)	0
Change in discount rate	96	269	26	94
Benefits paid	(110)	(367)	(134)	(139)
Ending benefit obligation	2,663	2,642	1,419	1,457
Change in plan assets (primarily equity and fixed income investments and money market funds), at fair value:				
Beginning plan assets	1,265	1,501	1,008	934
Actual return	124	131	91	83
Employer contribution	284	0	119	130
Benefits paid	(110)	(367)	(134)	(139)
Ending plan assets	1,563	1,265	1,084	1,008
Funded status	(1,100)	(1,377)	(335)	(449)
Unrecognized net actuarial loss	1,820	1,876	800	814
Prepaid benefit cost	$ 720	$ 499	$ 465	$ 365

Amounts recognized in the consolidated balance sheets consist of:	Pension Benefits		SERP Benefits	
	2004	2003	2004	2003
	(in thousands)		(in thousands)	
Prepaid benefit cost	$ 720	$ 499	$ 465	$ 365
Accumulated other comprehensive income (pre-tax)	(1,820)	(1,876)	0	0
Net amount recognized	$ (1,100)	$ (1,377)	$ 465	$ 365

	December 31,		December 31,	
	2004	2003	2004	2003
	(in thousands)		(in thousands)	
Projected benefit obligation	$ 2,663	$ 2,642	$ 1,419	$ 1,457
Accumulated benefit obligation	2,663	2,642	1,419	1,457
Fair value of plan assets	1,563	1,265	1,084	1,008

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

Net pension expense includes the following:

	Pension Benefits			SERP Benefits		
	2004	2003	2002	2004	2003	2002
	(in thousands)			(in thousands)		
Service cost	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Interest cost	149	155	152	83	91	97
Expected return on plan assets	(125)	(141)	(184)	(100)	(95)	(104)
Recognized net actuarial (gain) loss	38	28	7	36	29	12
Net pension expense (benefit)	$ 62	$ 42	$ (25)	$ 19	$ 25	$ 5

Additional Information:	Pension Benefits			SERP Benefits		
	2004	2003	2002	2004	2003	2002
	(in thousands)			(in thousands)		
(Decrease)/increase in minimum liability included in other comprehensive income	$ (56)	$ 557	$ 588	$ 0	$ 0	$ 0
The following assumptions were used in calculating the net benefit obligation:						
Weighted average discount rate	6.00%	6.75%	7.50%	6.00%	6.75%	7.50%
Rate of increase in future compensation	N/A	N/A	N/A	N/A	N/A	N/A
The following assumptions were used in calculating the net pension expense:						
Weighted average discount rate	5.75%	6.00%	6.75%	5.75%	6.00%	6.75%
Rate of increase in future compensation	N/A	N/A	N/A	N/A	N/A	N/A
Expected long-term rate of return	8.25%	8.25%	8.50%	8.25%	8.25%	8.50%

The expected long-term rate of return on plan assets is developed in consultation with the plan actuary. It is primarily based upon industry trends and consensus rates of return which are then adjusted to reflect the specific asset allocations and historical rates of return of the Company's plan assets.

The asset allocations at the measurement dates of September 30, 2004, and 2003, by asset category are as follows:

	Pension Plan Assets at September 30,		SERP Plan Assets at September 30,	
Asset Category	2004	2003	2004	2003
Equity securities	64%	74%	61%	59%
Debt Securities	29%	23%	34%	36%
Other	7%	3%	5%	5%
Total	100%	100%	100%	100%

The Company's investment strategies are to invest in a prudent manner for the purpose of providing benefits to participants. The investment strategies are targeted to maximize the total return of the portfolio net of inflation, spending and expenses. Risk is controlled through diversification of asset types and investments in domestic and international equities and fixed income securities. Certain asset types and investment strategies are prohibited including: commodities, options, futures, short sales, margin transactions and non-marketable securities. The target allocation is 60% equities and 40% debt securities although acceptable ranges are: 55-65% equities and 35-45% debt securities.

Contributions

The Company expects to contribute $422,000 to its pension plan and $106,000 to its SERP plan in 2005.

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

Plan Year	Pension Benefits	SERP Benefits
	(in thousands)	
2005	$ 95	$ 125
2006	107	121
2007	108	116
2008	116	111
2009	123	105
Thereafter	758	434

Other Employee Benefit Plans

The Company maintains a 401(k) profit sharing plan for all employees meeting age and service requirements. The Company contributions are based upon the percentage of budgeted net income earned during the year for 2004 and upon the rate of return on stockholders' equity as of January 1st of each year for 2003 and 2002. The expense recognized was $731,000, $732,000 and $620,000 in 2004, 2003 and 2002.

Effective January 1, 2004, the Company adopted the Lake City Bank Deferred Compensation Plan. The purpose of the deferred compensation plan is to extend full 401(k) type retirement benefits to certain individuals without regard to statutory limitations under tax qualified plans. The expense recognized was $10,000 for 2004. The plan is funded solely by participant contributions and does not receive a company match.

Under employment agreements with certain executives, certain events leading to separation from the Company could result in cash payments totaling $2.4 million as of December 31, 2004. On December 31, 2004, no amounts were accrued on these contingent obligations.

NOTE 13 - OTHER EXPENSE

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

	2004	2003	2002
		(in thousands)	
Corporate and business development	$ 1,036	$ 1,003	$ 985
Advertising	694	706	681
Office supplies	594	591	513
Telephone and postage	1,126	1,137	1,312
Regulatory fees and FDIC insurance	261	242	236
Professional fees	1,337	1,275	995
Amortization of other intangible assets	215	154	149
Courier & delivery	578	548	521
Miscellaneous	2,601	3,020	3,022
Total other expense	$ 8,442	$ 8,676	$ 8,414

NOTE 14 - INCOME TAXES

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

	2004	2003	2002
		(in thousands)	
Current federal	$ 5,446	$ 5,121	$ 6,936
Deferred federal	720	816	(1,134)
Current state	1,013	773	909
Deferred state	123	118	(191)
Total income tax expense	$ 7,302	$ 6,828	$ 6,520

Income tax expense included $0, $203,000 and $20,000 applicable to security transactions for 2004, 2003 and 2002. The differences between financial statement tax expense and amounts computed by applying the statutory federal income tax rate of 35% for 2004, 2003 and 2002 to income before income taxes were as follows:

	2004	2003	2002
		(in thousands)	
Income taxes at statutory federal rate	$ 7,647	$ 7,243	$ 6,610
Increase (decrease) in taxes resulting from:			
Tax exempt income	(914)	(813)	(621)
Nondeductible expense	186	176	136
State income tax, net of federal tax effect	738	579	467
Net operating loss, Gateway	(30)	(30)	(30)
Tax credits	(104)	(73)	(48)
Bank owned life insurance	(221)	(242)	(24)
Other	0	(12)	30
Total income tax expense	$ 7,302	$ 6,828	$ 6,520

NOTE 14 - INCOME TAXES (continued)

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

	2004		2003	
	Federal	State	Federal	State
	(in thousands)			
Deferred tax assets				
Bad debts	$ 3,764	$ 766	$ 3,582	$ 801
Pension and deferred compensation liability	209	47	373	88
Net operating loss carryforward	178	0	208	0
Deferred loan fees	10	2	0	0
Other	170	30	154	33
	4,331	845	4,317	922
Deferred tax liabilities				
Accretion	38	9	28	6
Depreciation	1,024	163	660	77
Loan servicing rights	598	137	561	125
State taxes	131	0	215	0
Leases	122	27	186	42
Deferred loan fees	0	0	12	3
Intangible assets	326	73	181	41
FHLB stock dividends	115	26	47	12
Prepaid expenses	152	35	0	0
	2,506	470	1,890	306
Valuation allowance	0	0	0	0
Net deferred tax asset	$ 1,825	$ 375	$ 2,427	$ 616

In addition to the net deferred tax assets included above, the deferred income tax asset (liability) allocated to the unrealized net loss on securities available for sale included in equity was $41,000 and $91,000 for 2004 and 2003. The deferred income tax asset allocated to the minimum pension liability included in equity was $738,000 and $761,000 for 2004 and 2003.

NOTE 15 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates as of December 31, 2004 and 2003 were as follows:

	2004	2003
	(in thousands)	
Beginning balance	$ 47,088	$ 39,931
New loans and advances	91,627	70,919
Effect of changes in related parties	61	5,135
Repayments	(88,351)	(68,897)
Ending balance	$ 50,425	$ 47,088

Deposits from principal officers, directors, and their affiliates at year-end 2004 and 2003 were $2.5 million and $2.0 million. In addition, the amount owed directors for fees under the deferred directors' plan as of December 31, 2004 and 2003 was $813,000 and $994,000. The related expense for the deferred directors' plan as of December 31, 2004, 2003 and 2002 was $184,000, $235,000 and $487,000.

NOTE 16 - STOCK OPTIONS

The stock option plan requires that the exercise price for options be the market price on the date the options are granted. The maximum option term is ten years and the options vest over 5 years. A summary of the activity in the plan follows:

	2004			2003			2002		
	Weighted-Average Shares		Exercise Price	Weighted-Average Shares		Exercise Price	Weighted-Average Shares		Exercise Price
Outstanding at beginning of the year	521,475	$	19.12	495,545	$	17.26	550,345	$	17.27
Granted	0		0.00	64,790		34.21	2,000		23.88
Exercised	81,110		21.09	20,760		23.33	0		0.00
Forfeited	6,050		19.68	18,100		17.51	56,800		17.53
Outstanding at end of the year	434,315	$	18.75	521,475	$	19.12	495,545	$	17.26
Options exercisable at end of the year	96,300	$	22.02	107,575	$	23.15	3,600	$	18.35
Weighted-average fair value of options granted during the year		$	0.00		$	11.06		$	10.99

Options outstanding at year-end 2004 were as follows:

	Outstanding				Exercisable		
	Number	Weighted-Average Remaining Contractual Life		Weighted-Average Exercise Price	Number		Weighted-Average Exercise Price
Range of exercise prices							
$11.20-$14.00	186,925	5.8	$	13.57	0	$	0.00
$14.01-$16.80	87,600	5.4		15.07	0		0.00
$16.81-$22.40	42,150	4.1		19.26	42,150		19.26
$22.41-$25.20	50,500	3.4		23.82	49,500		23.82
$25.21-$28.00	5,650	3.7		27.74	4,650		27.90
$28.01-$35.00	61,490	8.9		34.37	0		0.00
Outstanding at year-end	434,315	5.7		18.75	96,300		22.02

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, 2004 and 2003, that the Company and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2004, 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		Minium Required to Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of December 31, 2004:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 136,315	12.28%	$ 88,781	8.00%	$ 110,977	10.00%
Bank	$ 134,083	12.11%	$ 88,569	8.00%	$ 110,712	10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 125,561	11.31%	$ 44,391	4.00%	$ 66,586	6.00%
Bank	$ 123,329	11.14%	$ 44,285	4.00%	$ 66,427	6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 125,561	9.07%	$ 55,391	4.00%	$ 69,239	5.00%
Bank	$ 123,329	8.92%	$ 55,289	4.00%	$ 69,112	5.00%
As of December 31, 2003:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 124,941	12.83%	$ 77,919	8.00%	$ 97,399	10.00%
Bank	$ 122,909	12.65%	$ 77,709	8.00%	$ 97,136	10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 114,707	11.78%	$ 38,959	4.00%	$ 58,439	6.00%
Bank	$ 112,675	11.60%	$ 38,855	4.00%	$ 58,282	6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 114,707	9.15%	$ 50,131	4.00%	$ 62,664	5.00%
Bank	$ 112,675	9.00%	$ 50,064	4.00%	$ 62,580	5.00%

NOTE 17 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS (continued)

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 Department of Financial Institutions 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. As of December 31, 2004, approximately $23.2 million was available to be paid as dividends to the Company by the Bank.

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, 2004. 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, 2004 and 2003. Items which are not financial instruments are not included.

	2004		2003	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Financial Assets:				
Cash and cash equivalents	$ 103,858	$ 103,858	$ 57,441	$ 57,441
Securities available for sale	286,582	286,582	281,367	281,367
Real estate mortgages held for sale	2,991	3,018	3,431	3,431
Loans, net	992,465	993,496	860,648	864,493
Federal Home Loan Bank stock	4,442	4,442	4,252	4,252
Accrued interest receivable	5,752	5,752	4,997	4,997
Financial Liabilities:				
Certificates of deposit	(434,318)	(435,233)	(300,503)	(305,003)
All other deposits	(681,081)	(681,081)	(625,888)	(625,888)
Securities sold under agreements to repurchase	(88,057)	(88,057)	(102,601)	(102,601)
Other short-term borrowings	(97,593)	(97,593)	(82,160)	(82,184)
Long-term borrowings	(10,046)	(9,999)	(30,047)	(30,304)
Subordinated debentures	(30,928)	(29,336)	(30,928)	(30,974)
Accrued interest payable	(3,546)	(3,546)	(2,376)	(2,376)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2004 and 2003. The estimated fair value for cash and 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 Federal Home Loan Mortgage Corporation price for normal delivery of mortgages with similar coupons and maturities at year-end. The estimated fair value of loans is based on estimates of the rate the Company would charge for similar loans at December 31, 2004 and 2003, applied for the time period until estimated repayment. 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, 2004 and 2003, applied for the time period until maturity. The estimated fair value of variable rate 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.

NOTE 18 - FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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, 2004 and 2003, 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, 2004 and 2003 should not necessarily be considered to apply at subsequent dates.

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, 2004 and 2003, were as follows:

	2004		2003	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commercial loan lines of credit	$ 47,139	$ 320,711	$ 4,308	$ 222,755
Commercial loan letters of credit	0	10,441	0	11,424
Real estate mortgage loans	4,371	1,214	5,405	1,392
Real estate construction mortgage loans	2,123	1,554	535	2,605
Credit card open-ended revolving lines	11,136	2,014	8,560	1,582
Home equity mortgage open-ended revolving lines	0	80,546	0	68,030
Consumer loan open-ended revolving lines	0	4,380	0	3,901
Total	$ 64,769	$ 420,860	$ 18,808	$ 311,689

The index on variable rate commercial loan commitments is principally the Company's base rate, which is the national prime rate. Interest rate ranges on commitments and open-ended revolving lines of credit for December 31, 2004 and 2003, were as follows:

	2004		2003	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commercial loan	2.00-10.75%	3.00-9.50%	2.00-10.75%	2.67-9.00%
Real estate mortgage loan	4.75-6.13%	5.00-6.25%	4.88-7.25%	5.00-7.00%
Credit card	14.95-17.95%	8.25-10.25%	14.95-17.95%	7.00%
Consumer loan open-ended revolving line	0.00%	5.25-15.00%	0.00%	2.99-15.00%

Commitments, excluding open-ended revolving lines, generally have fixed expiration dates of one year or less. Open-ended revolving lines are monitored for proper performance and compliance on a monthly basis. 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 substantially all of its revenues, operating income, and assets. Presented below are parent only financial statements:

CONDENSED BALANCE SHEETS

	December 31, 2004	December 31, 2003
	(in thousands)	
ASSETS		
Deposits with Lake City Bank	$ 924	$ 861
Investments in banking subsidiary	129,532	117,990
Investments in Lakeland Statutory Trust II	928	928
Other assets	2,649	2,394
Total assets	$ 134,033	$ 122,173
LIABILITIES		
Dividends payable and other liabilities	$ 1,340	$ 1,223
Subordinated debt	30,928	30,928
STOCKHOLDERS' EQUITY	101,765	90,022
Total liabilities and stockholders' equity	$ 134,033	$ 122,173

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31, 2004	2003	2002
		(in thousands)	
Dividends from Lake City Bank, Lakeland Statutory Trust II and Lakeland Capital Trust	$ 4,080	$ 3,980	$ 5,730
Interest on deposits and repurchase agreements, Lake City Bank	0	1	4
Equity in undistributed income of subsidiaries	11,527	11,648	8,129
Interest expense on subordinated debt	1,437	1,725	1,856
Miscellaneous expense	357	1,264	620
INCOME BEFORE INCOME TAXES	13,813	12,640	11,387
Income tax benefit	732	1,225	979
NET INCOME	$ 14,545	$ 13,865	$ 12,366

CONDENSED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2004	2003	2002
		(in thousands)	
Cash flows from operating activities:			
Net income	$ 14,545	$ 13,865	$ 12,366
Adjustments to net cash from operating activities			
Equity in undistributed income of subsidiaries	(11,527)	(11,648)	(8,129)
Other changes	305	510	(101)
Net cash from operating activities	3,323	2,727	4,136
Cash flows from investing activities	0	(9,779)	0
Cash flows from financing activities	(3,260)	6,470	(4,006)
Net increase in cash and cash equivalents	63	(582)	130
Cash and cash equivalents at beginning of the year	861	1,443	1,313
Cash and cash equivalents at end of the year	$ 924	$ 861	$ 1,443

NOTE 21 - EARNINGS PER SHARE

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

	2004	2003	2002
Basic earnings per common share			
Net income	$ 14,545,000	$ 13,865,000	$ 12,366,000
Weighted-average common shares outstanding	5,867,705	5,819,916	5,813,984
Basic earnings per common share	$ 2.48	$ 2.38	$ 2.13
Diluted earnings per common share			
Net income	$ 14,545,000	$ 13,865,000	$ 12,366,000
Weighted-average common shares outstanding for basic earnings per common share	5,867,705	5,819,916	5,813,984
Add: Dilutive effect of assumed exercises of stock options	196,372	181,533	144,402
Average shares and dilutive potential common shares	6,064,077	6,001,449	5,958,386
Diluted earnings per common share	$ 2.40	$ 2.31	$ 2.08

Stock options for 61,490 and 63,790 shares of common stock were not considered in computing diluted earnings per common share for 2004 and 2003 because they were antidilutive.

NOTE 22 - SELECTED QUARTERLY DATA (UNAUDITED) (in thousands except per share data)

2004	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 16,364	$ 15,103	$ 14,236	$ 14,302
Interest expense	4,815	4,194	3,857	3,967
Net interest income	$ 11,549	$ 10,909	$ 10,379	$ 10,335
Provision for loan losses	575	150	246	252
Net interest income after provision	$ 10,974	$ 10,759	$ 10,133	$ 10,083
Noninterest income	4,044	4,436	4,045	4,033
Noninterest expense	9,356	9,201	9,195	8,908
Income tax expense	1,914	2,043	1,639	1,706
Net income	$ 3,748	$ 3,951	$ 3,344	$ 3,502
Basic earnings per common share	$ 0.64	$ 0.67	$ 0.57	$ 0.60
Diluted earnings per common share	$ 0.62	$ 0.65	$ 0.55	$ 0.58

2003	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 14,513	$ 14,833	$ 15,537	$ 15,453
Interest expense	4,013	4,429	4,793	4,902
Net interest income	$ 10,500	$ 10,404	$ 10,744	$ 10,551
Provision for loan losses	490	380	717	667
Net interest income after provision	$ 10,010	$ 10,024	$ 10,027	$ 9,884
Noninterest income	4,621	4,481	4,939	4,386
Noninterest expense	10,345	9,095	9,268	8,971
Income tax expense	1,276	1,819	1,949	1,784
Net income	$ 3,010	$ 3,591	$ 3,749	$ 3,515
Basic earnings per common share	$ 0.52	$ 0.62	$ 0.64	$ 0.60
Diluted earnings per common share	$ 0.49	$ 0.60	$ 0.63	$ 0.59

NOTE 23 - TRUST ACQUISITION

On December 1, 2003, the Company acquired the Fort Wayne, Indiana office of Indiana Capital Management Bank & Trust. The Company paid $600,000 to settle the net assets acquired. The assets of the trust business are held by the Lake City Bank trust department. Summary information regarding the effect of the sale on the balance sheet is presented below. In addition, the Company received $60.0 million in trust assets that are not included in these financial statements.

	Amount (in thousands)
Assets:	
Equipment	$ 30
Intangible assets	572
Liabilities:	
Other liabilities	$ 2

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

Stockholders and Board of Directors
Lakeland Financial Corporation
Warsaw, Indiana

We have audited the accompanying consolidated balance sheets of Lakeland Financial Corporation ("Company") and subsidiaries as of December 31, 2004 and 2003, 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, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with U.S. generally accepted accounting principles.

Crowe Chizek and Company LLC

South Bend, Indiana
February 10, 2005

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

Not applicable.

ITEM 9a. CONTROLS AND PROCEDURES

a) An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a -15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2004. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

b) There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls

c) The Sarbanes-Oxley Act of 2002 (the "Act") imposed many requirements regarding corporate governance and financial reporting. One requirement under section 404 of the Act, beginning with this annual report, is for management to report on the Company's internal controls over financial reporting and for our independent registered public accounting firm to attest to this report. In late November 2004, the Securities and Exchange Commission issued an exemptive order providing a 45-day extension for the filing of these reports and attestations by eligible companies. We elected to utilize this 45-day extension; therefore, this Form 10-K does not include these reports. These reports will be included in an amended Form 10-K expected to be filed in April 2005. During 2004, we spent considerable time and resources analyzing, documenting and testing our system of internal controls. Currently, we are not aware of any material weaknesses in our internal controls over financial reporting and related disclosures.

ITEM 9b. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information appearing in the definitive Proxy Statement, dated as of March 11, 2005, is incorporated herein by reference in response to this item.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing in the definitive Proxy Statement, dated as of March 11, 2005, is incorporated herein by reference in response to this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHARELHOLDER MATTERS

The information appearing in the definitive Proxy Statement, dated as of March 11, 2005, is incorporated herein by reference in response to this item.

Equity Compensation Plan Information

The table below sets forth the following information as of December 31, 2004 for (i) all compensation plans previously approved by the Company's shareholders and (ii) all compensation plans not previously approved by the Company's shareholders:

(a) the number of securities to be issued upon the exercise of outstanding options, warrants and rights;

(b) the weighted-average exercise price of such outstanding options, warrants and rights;

(c) other than securities to be issued upon the exercise of such outstanding options, warrants and rights, the number of securities remaining available for future issuance under the plans.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders...............	434,315	18.75	63,815
Equity compensation plans not approved by security holders......	0	0.00	0
Total............................	434,315	18.75	63,815

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing in the definitive Proxy Statement, dated as of March 11, 2005, is incorporated herein by reference in response to this item.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information appearing in the definitive proxy statement, dated as of March 11, 2005, is incorporated herein by reference in response to this item.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(a) Exhibits

Exhibit No.	Document	Incorporated by reference to
3.1	Amended and Restated Articles of Incorporation of Lakeland Financial Corporation	Exhibit 4.1 to the Company's Form S-8 filed with the Commission 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
4.1	Form of Common Stock Certificate	Exhibit 4.1 to the Company's Form 10-K for the fiscal year ended December 31, 2003
10.1	Lakeland Financial Corporation 1997 Share Incentive Plan	Exhibit 4.3 to the Company's Form S-8 filed with the Commission on April 15, 1998
10.3	Form of Indenture for Trust Preferred Issuance	Exhibit 4.1 to the Company's Form 10-K for the fiscal year ended December 31, 2003
10.4	Lakeland Financial Corporation 401(k) Plan	Exhibit 10.1 to the Company's Form S-8 filed with the Commission on October 23, 2000
10.5	Amended and Restated Lakeland Financial Corporation Director's Fee Deferral Plan	Exhibit 10.5 to the Company's Form 10-K for the fiscal year ended December 31, 2002
10.6	Form of Change of Control Agreement entered into with David M. Findlay and Kevin L. Deardorff	Exhibit 10.5 to the Company's Form 10-K for the fiscal year ended December 31, 2001
10.7	Form of Change in Control Agreement entered into with Michael L. Kubacki, Charles D. Smith and Robert L. Condon	Exhibit 10.3 to the Company's Form 10-K for the fiscal year ended December 31, 2000
10.8	Employee Deferred Compensation Plan and Form of Agreement	Attached hereto
10.9	Schedule of Board Fees	Attached hereto
10.10	Form of Option Grant Agreement	Attached hereto
10.11	Executive Incentive Bonus Plan	Attached hereto
21.0	Subsidiaries	Attached hereto
23.1	Consent of Independent Registered Public Accounting Firm	Attached hereto
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)	Attached hereto
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)	Attached hereto
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached hereto
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached hereto

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: February 23, 2005

By /s/ Michael L. Kubacki
Michael L. Kubacki, 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.

Name	Title	Date
/s/ Michael L. Kubacki Michael L. Kubacki	Principal Executive Officer and Director	February 23, 2005
/s/ David M. Findlay David M. Findlay	Principal Financial Officer	February 23, 2005
/s/ Teresa A. Bartman Teresa A. Bartman	Principal Accounting Officer	February 23, 2005
Robert E. Bartels, Jr	Director	February 23, 2005
/s/ L. Craig Fulmer L. Craig Fulmer	Director	February 23, 2005
/s/ Allan J. Ludwig Allan J. Ludwig	Director	February 23, 2005
/s/ Charles E. Niemier Charles E. Niemier	Director	February 23, 2005
Emily E. Pichon	Director	February 23, 2005
/s/ Richard L. Pletcher Richard L. Pletcher	Director	February 23, 2005

/s/ Steven D. Ross Steven D. Ross	Director	February 23, 2005
/s/ Donald B. Steininger Donald B. Steininger	Director	February 23, 2005
/s/ Terry L. Tucker Terry L. Tucker	Director	February 23, 2005
M. Scott Welch	Director	February 23, 2005

Exhibit 21

Subsidiaries

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

2. Lakeland Statutory Trust II, a statutory business trust formed under Connecticut 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.

BEST PRACTICES SAMPLE FORM
(Use Only After Consulting With Tax And Legal Advisor)

Effective January 1, 2004

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LAKE CITY BANK
DEFERRED COMPENSATION PLAN
Effective January 1, 2004

Purpose

The purpose of this Plan is to provide specified benefits to a select group of management or highly compensated Employees who contribute materially to the continued growth, development and future business success of Lake City Bank, an Indiana state bank with its main office in Warsaw, Indiana, and its subsidiaries, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

ARTICLE 1
Definitions

For the purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

1.1 "401(k) Plan" shall mean the "Lake City Bank 401(k) Retirement Plan."

1.2 "401(k) Restoration Matching Account" shall mean (i) the sum of all of a Participant's 401(k) Restoration Matching Amounts, plus (ii) amounts credited (earnings, contributions, etc.) to the Participant's 401(k) Restoration Matching Account in accordance with this Plan, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's 401(k) Restoration Matching Account, less amounts debited (deemed losses, distributions, etc.) from the Participant's 401(k) Restoration Matching Account in accordance with this Plan.

1.3 "401(k) Restoration Matching Amount" for any one Plan Year shall be the amount determined in accordance with Section 3.6.

1.4 "Account Balance" shall mean, with respect to a Participant, a credit on the records of the Employer equal to the sum of the Deferral Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.

1.5 "Annual Deferral Amount" shall mean that portion of a Participant's Base Salary or Bonus that a Participant defers in accordance with Article 3 for any one Plan Year. In the event of a Participant's Retirement, Disability (if deferrals cease in accordance with Section 8.1), death or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.

1.6 "Annual Installment Method" shall be an annual installment payment over the number of years selected by the Participant in accordance with this Plan, calculated as follows: (i) for the first annual installment, the Account Balance of the Participant shall be calculated as of the close of business on or around the last business day of the Plan Year in which the Participant Retires or is deemed to have Retired in accordance with Section 8.2(c), as determined by the Committee in its sole discretion, and (ii) for remaining annual installments, the Account Balance of the Participant shall be calculated on every applicable anniversary of the last business day of the Plan Year in which the Participant Retires or is deemed to have Retired in accordance with Section 8.2(c). Each annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects a ten (10) year Annual Installment Method, the first payment shall be 1/10 of the Account Balance, calculated as described in this definition. The following year, the payment shall be 1/9 of the Account Balance, calculated as described in this definition.

1.7 "Bank" shall mean Lake City Bank, an Indiana state bank, and any successor to all or substantially all of the Bank's assets or business.

1.8 "Base Salary" shall mean the annual cash compensation relating to services performed during any calendar year, excluding distributions from nonqualified deferred compensation plans, bonuses, commissions, overtime, fringe benefits, all compensation recognized or related to any equity-based compensation (e.g., stock options, restricted stock, stock grants, or stock appreciation rights), relocation expenses, incentive payments, non-monetary awards, director fees and other fees, and automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income). Base Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of the Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), pursuant to plans established by the Employer; provided, however, that all such amounts will be included in compensation only to the extent that had there been no such plan, the amount would have been payable in cash to the Employee.

1.9 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 10, that are entitled to receive benefits under this Plan upon the death of a Participant.

1.10 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.

1.11 "Board" shall mean the board of directors of the Bank.

1.12 "Bonus" shall mean any compensation, in addition to Base Salary, earned by a Participant for services rendered during a Plan Year, under the Employer's annual bonus, commission, and cash incentive plans, excluding any equity-based compensation (e.g., stock options, restricted stock, stock grants, or stock appreciation rights).

1.13 "Change in Control" shall mean:

(a) The consummation of the acquisition by any "person" (as such term is defined in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended ("1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of fifty percent (50%) or more of the combined voting power of the then outstanding voting securities of Lakeland Financial Corporation (the "Company"); or

(b) The individuals who, as of date hereof, are members of the board of directors of the Company (the "Company Board") cease for any reason to constitute a majority of the Company Board, unless the election, or nomination for election by the Company stockholders, of a new Company director was approved by a vote of a majority of the Company Board, and such new director shall, for purposes of this Plan, be considered as a member of the Company Board; or

(c) Consummation by the Company of (i) a merger or consolidation of the Company, if the Company stockholders immediately before such merger or consolidation, do not, as a result of such merger or consolidation, own directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation, in substantially the same proportion as their ownership of the combined voting power of the voting securities of the Company outstanding immediately before such merger or consolidation or (ii) a complete liquidation or dissolution or an agreement for the sale or other disposition of all or substantially all of the assets of the Company.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because fifty percent (50%) or more of the combined voting power of the then outstanding securities of the Company is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of the entity or (ii) any corporation which, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company immediately prior to such acquisition.

1.14 "Claimant" shall have the meaning set forth in Section 15.1.

1.15 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

1.16 "Committee" shall mean the committee described in Article 13.

1.17 "Deduction Limitation" shall mean the limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan, as set forth in Article 4.

1.18 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus (ii) amounts credited (earnings, contributions, etc.) to the Participant's Deferral Account in accordance with this Plan, plus (iii) any 401(k) Restoration Match credited to Participant's Deferral Account, less (iv) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account, less amounts debited (deemed losses, distributions, etc.) from the Participant's Deferral Account in accordance with this Plan.

1.19 "Director" shall mean any member of the board of directors of the Employer.

1.20 "Disability" or "Disabled" shall mean a determination that a Participant is disabled made by either (i) the carrier of any individual or group disability insurance policy, sponsored by the Participant's Employer, or (ii) the Social Security Administration. Upon request by the Employer, the Participant must submit proof of the carrier's or Social Security Administration's determination.

1.21 "Disability Benefit" shall mean the benefit set forth in Article 8.

1.22 "Election Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan.

1.23 "Employee" shall mean a person who is an employee of the Employer.

1.24 "Employer" shall mean the Bank and/or any of its subsidiaries (now in existence or hereafter formed or acquired).

1.25 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

1.26 "In-Service Distribution" shall mean the distribution set forth in Section 4.1.

1.27 "Participant" shall mean any Employee (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs a Plan Agreement, an Election Form and a Beneficiary Designation Form, (iv) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.

1.28 "Plan" shall mean the Lake City Bank Deferred Compensation Plan, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.

1.29 "Plan Agreement" shall mean a written agreement, as may be amended from time to time, which is entered into by and between the Employer and a Participant. Each Plan Agreement executed by a Participant and the Employer shall provide for the entire benefit to which such Participant is entitled under the Plan; should there be more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the Employer shall supersede all previous Plan Agreements in their entirety and shall govern such entitlement. The terms of any Plan Agreement may be different for any Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must be agreed to by both the Employer and the Participant.

1.30 "Plan Year" shall mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

1.31 "Retirement," "Retire(s)" or "Retired" shall mean, with respect to an Employee, severance from employment from the Employer for any reason (other than an approved leave of absence, death or Disability) upon the attainment of age fifty-five (55) and after at least ten (10) years of service.

1.32 "Retirement Benefit" shall mean the benefit set forth in Article 6.

1.33 "Survivor Benefit" shall mean the benefit set forth in Article 9.

1.34 "Termination Benefit" shall mean the benefit set forth in Article 7.

1.35 "Termination of Employment" shall mean the severing of employment with all Employers, voluntarily or involuntarily, for any reason other than Retirement, Disability, death or an approved leave of absence.

1.36 "Trust" shall mean one or more trusts established shall mean one or more trusts established by the Bank in accordance with Article 16.

1.37 "Unforeseeable Financial Emergency" shall mean a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant, the Participant's spouse, or a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

1.38 "Years of Service" shall mean the total number of full years in which a Participant has been employed by one or more Employers. For purposes of this definition, a year of employment shall be a 365 day period (or 366 day period in the case of a leap year) that, for the first year of employment, commences on the Employee's date of hiring and that, for any subsequent year, commences on an anniversary of that hiring date. The Committee shall make a determination as to whether any partial year of employment shall be counted as a Year of Service.

ARTICLE 2
Selection, Enrollment, Eligibility

2.1 Selection by Committee. Participation in the Plan shall be limited to a select group of management and highly compensated Employees of the Employer, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees to participate in the Plan.

2.2 Enrollment Requirements. As a condition to participation, each selected Employee shall complete, execute and return to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form, all within thirty (30) days after he or she is selected to participate in the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

2.3 Eligibility; Commencement of Participation. Provided an Employee selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee shall commence participation in the Plan on the first day of the month following the month in which the Employee completes all enrollment requirements. If an Employee fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee shall not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and acceptance by the Committee of the required documents.

2.4 Termination of Participation and/or Deferrals. If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (ii) prevent the Participant from making future deferral elections and/or (iii) immediately distribute the Participant's Account Balance as a Termination Benefit and terminate the Participant's participation in the Plan.

ARTICLE 3
Deferral Commitments/Vesting/Crediting/Taxes

3.1 Minimum Deferrals.

(a) Minimum Annual Deferral Amount. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Salary or Bonus in a minimum amount of one thousand dollars ($1,000). If Participant elects less than the stated minimum amount, or if Participant fails to make an election, the amount deferred shall be zero.(a)

(b) Short Plan Year. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the minimum Annual Deferral Amount shall be an amount equal to the minimum set forth above, multiplied by a fraction, the numerator of which is the number of complete months remaining in the Plan Year and the denominator of which is twelve (12).

3.2 Maximum Deferral.

(a) Maximum Annual Deferral Amount. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Salary or Bonus up to the following maximum percentages for each deferral elected:

Deferral	Minimum Amount
Base Salary	50%
Bonus	50%

(b) Short Plan Year. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the maximum Annual Deferral Amount (i) with respect to Base Salary shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance, and (ii) with respect to Bonus, shall be limited to those amounts deemed eligible for deferral, in the sole discretion of the Committee.

3.3 Election to Defer; Effect of Election Form.

(a) First Plan Year. In connection with a Participant's commencement of participation in the Plan, the Participant shall make an irrevocable deferral election for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above), and accepted by the Committee. Any such deferral election shall be applicable only to services rendered subsequent to the deferral election.

(b) Subsequent Plan Years. For each succeeding Plan Year, an irrevocable deferral election for that Plan Year, and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering a new Election Form to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made. If no such Election Form is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year.

3.4 Withholding and Crediting of Annual Deferral Amounts. For each Plan Year, the Base Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Salary payroll in equal amounts, as adjusted from time to time for increases and decreases in Base Salary. The Bonus portion of the Annual Deferral Amount shall be withheld at the time the Bonus is or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself. Annual Deferral Amounts shall be credited to a Participant's Deferral Account at the time such amounts would otherwise have been paid to the Participant.

3.5 Vesting. A Participant shall at all times be 100% vested in his or her Deferral Account, subject to the provisions of

3.6 401(k) Restoration Matching Amount. In the event any elective deferrals under the 401(k) Plan are required to be returned to Participant because of the nondiscrimination rules set forth in Code Section 401(k), the amount determined to be returnable shall immediately and directly be transferred to this Plan (subject to the limits set forth herein), if the Participant shall have previously so elected in writing on a form prescribed and filed with the Administrator. To the extent elective deferrals are transferred to this Plan from the 401(k) Plan, the actual amount which may be so transferred shall be pro rated to exclude a percentage thereof which the Administrator determines is allocable to a portion of the Plan Year during which the individual was not a Participant in the Plan. A Participant may revoke an election under this Section, prospectively only, by filing a new form with the Administrator prior to the Plan Year for which it is effective. 3.6 Any elective deferrals made by Participant and transferred to this Plan under this Section 3.6 will be credited to the 401(k) Restoration Matching Account, and will be credited with a 401(k) Restoration Matching Amount on the same basis as under the 401(k) Plan, but only to the extent that the elective deferrals would have been matched if they had been contributed to the 401(k) Plan. In addition, the Bank shall also credit Participant with an amount to the extent that Participant forfeits matching contributions under the 401(k) Plan due to the application of the nondiscrimination rules set forth in Code Sections 401(k) and 401(m), respectfully.

(a) Vesting of 401(k) Restoration Matching Amount. Participant shall be fully vested in each year's 401(k) Restoration Matching Amount, subject to the following schedule:

Years of Service	Percent Vested
1	20%
2	40%
3	60%
4	80%
5 (after 500 hours)	100%

3.7 Crediting/Debiting of Account Balances. In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

(a) Measurement Funds. Subject to the restrictions found in Section 3.7(a)(i) below, the Participant may elect one or more of the measurement funds selected by the Committee, in its sole discretion, which are based on certain mutual funds (the "Measurement Funds"), for the purpose of crediting or debiting additional amounts to his or her Account Balance. As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund. Each such action will take effect as of the first day of the first calendar quarter that begins at least thirty (30) days after the day on which the Committee gives Participants advance written notice of such change.

(i) Election of Measurement Funds. Subject to the restrictions found in this Section 3.7(a)(i), a Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the Election Form, one or more Measurement Fund(s)(as described in Section 3.7(a) above) to be used to determine the amounts to be credited or debited to his or her Account Balance. If a Participant does not elect any of the Measurement Funds as described in the previous sentence, the Participant's Account Balance shall automatically be allocated into the lowest-risk Measurement Fund, as determined by the Committee, in its sole discretion. Subject to the restrictions found in Section 3.7(b) below, the Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the amounts to be credited or debited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply as of the first business day deemed reasonably practicable by the Committee, in its sole discretion, and shall continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence.

(b) Proportionate Allocation. In making any election described in Section 3.7(a)(i) above, the Participant shall specify on the Election Form, in increments of one percent (1%), the percentage of his or her Account Balance to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Account Balance).

(c) Crediting or Debiting Method. The performance of each Measurement Fund (either positive or negative) will be determined by the Committee, in its sole discretion on a daily basis based on the manner in which such Participant's Account Balance has been hypothetically allocated among the Measurement Funds by the Participant.

(d) No Actual Investment. Notwithstanding any other provision of this plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation of his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Bank or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the investments on which the Measurement Funds are based, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Bank or the Trust; the Participant shall at all times remain an unsecured creditor of the Bank.

3.8 FICA and Other Taxes.

(a) Annual Deferral Amounts. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Salary and/or Bonus amounts that are not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.8.

(b) Distributions. The Participant's Employer(s), or the trustee of the Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer(s), or the trustee of the Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Employer(s) and the trustee of the Trust.

ARTICLE 4
Deduction Limitation

4.1 Deduction Limitation on Benefit Payments. If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Employer to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Employer may defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.7 above, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Employer in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

ARTICLE 5
In-Service Distribution; Unforeseeable Financial Emergencies; Withdrawal Election

5.1 In-Service Distribution. In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive an In-Service Distribution from the Plan with respect to all or a portion of the Annual Deferral Amount. The In-Service Distribution shall be a lump sum payment in an amount that is equal to the portion of the Annual Deferral Amount that the Participant elected to have distributed as an In-Service Distribution, plus amounts credited or debited in the manner provided in Section 3.7(c) above on that amount, calculated as of the close of business on or around the date on which the In-Service Distribution becomes payable, as determined by the Committee in its sole discretion. Subject to the other terms and conditions of this Plan, each In-Service Distribution elected shall be paid out during a sixty (60) day period commencing immediately after the first day of any Plan Year designated by the Participant. The Plan Year designated by the Participant must be at least three Plan Years after the end of the Plan Year in which the Annual Deferral Amount is actually deferred. By way of example, if an

In-Service Distribution is elected for Annual Deferral Amounts that are deferred in the Plan Year commencing January 1, 2004, the In-Service Distribution would become payable during a sixty (60) day period commencing January 1, 2008.

5.2 Other Benefits Take Precedence Over In-Service Distributions. Should an event occur that triggers a benefit under Article 6, 7, 8 or 9, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to an In-Service Distribution election under Section 5.1 shall not be paid in accordance with Section 5.1 but shall be paid in accordance with the other applicable Article.

5.3 Withdrawal Payout/Suspensions for Unforeseeable Financial Emergencies.

(a) If the Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee to suspend deferrals of Base Salary or Bonus required to be made by such Participant, to the extent deemed necessary by the Committee to satisfy the Unforeseeable Financial Emergency. If suspension of deferrals is not sufficient to satisfy the Participant's Unforeseeable Financial Emergency, or if

(i) Reimbursement or compensation by insurance or otherwise; or

(ii) Liquidation of Participant's assets (to the extent the liquidation would not itself cause severe financial hardship)

cannot satisfy the Participant's Unforeseeable Financial Emergency, then the Participant may further petition the Committee to receive a partial or full payout from the Plan. The Participant shall only receive a payout from the Plan to the extent such payout is deemed necessary by the Committee to satisfy the Participant's Unforeseeable Financial Emergency, plus an amount necessary to pay taxes reasonably anticipated as a result of the distribution.

(b) The payout shall not exceed the lesser of (i) the Participant's Account Balance, calculated as of the close of business on or around the date on which the amount becomes payable, as determined by the Committee in its sole discretion, or (ii) the amount reasonably needed to satisfy the Unforeseeable Financial Emergency, plus an amount necessary to pay taxes reasonably anticipated as a result of the distribution.

(c) If the Committee, in its sole discretion, approves a Participant's petition for suspension, the Participant's deferrals under this Plan shall be suspended as of the date of such approval. If the Committee, in its sole discretion, approves a Participant's petition for suspension and payout, the Participant's deferrals under this Plan shall be suspended as of the date of such approval and the Participant shall receive a payout from the Plan within sixty (60) days of the date of such approval.

ARTICLE 6
Retirement Benefit

6.1 Retirement Benefit. A Participant who Retires shall receive, as a Retirement Benefit, his or her Account Balance, calculated as of the close of business on or around the last business day of the Plan Year in which the Participant Retires.

6.2 Retirement Benefit Election of Payment. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form to receive the Retirement Benefit in a lump sum or pursuant to an Annual Installment Method of up to ten (10) years.

6.3 Timing of Retirement Distribution. If Participant is considered a "key employee" (as defined in Section 416(i) of the Code), then any distribution of Retirement amounts to Participant may only commence six (6) months following Participant's Termination of Employment. Otherwise, Retirement distributions shall commence no later than sixty (60) days after the last day of the Plan Year in which the Participant Retires. Remaining installments, if any, shall be paid no later than sixty (60) days after each anniversary of the last day of the Plan Year in which the Participant Retires.

6.4 One-time Election to Change Retirement Distributions. On a one-time basis, a Participant may elect (i) an allowable alternative payout period, or (ii) an alternative payout form by submitting a new Election Form to the Committee. Any such election (i) must be on an Election Form submitted to and accepted by the Committee in its sole discretion at least twelve (12) months prior to the first scheduled Retirement payment under this Section; (ii) must require that the first payment with respect to which such election is made be deferred for a period of not less than five (5) years from the date such payment would otherwise have been made; and (iii) may not accelerate the payment or shorten the payment stream in any way (For example, a Participant may not elect to take a lump sum in lieu of installments). The Election Form most recently accepted by the Committee shall govern the payout of the Retirement Benefit.

6.5 Failure to Make a Retirement Distribution Election. If a Participant does not make any election with respect to the payment of the Retirement Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made on the later of: (i) one-hundred eighty (180) days after Participant's Termination of Employment (if Participant is considered a "key employee," as defined in Section 416(i) of the Code), or if Participant is not a "key employee," then sixty (60) days after Participant's Termination of Employment; or (ii) the last day of the Plan Year in which the Participant Retires.

ARTICLE 7
Termination Benefit

7.1 Termination Benefit. A Participant who experiences a Termination of Employment shall receive a Termination Benefit, which shall be equal to the Participant's Account Balance, calculated as of the close of business on or around the last business day of the Plan Year in which the Participant experiences a Termination of Employment, as determined by the Committee in its sole discretion.

7.2 Payment of Termination Benefit. If Participant is considered a "key employee" (as defined in Section 416(i) of the Code), then any Termination Benefit payments to Participant may only commence six (6) months following Participant's Termination of Employment. Otherwise, the Termination Benefit shall be paid to the Participant in a lump sum payment no later than sixty (60) days after the last day of the Plan Year in which the Participant experiences the Termination of Employment.

ARTICLE 8
Disability Waiver and Benefit

8.1 Disability Waiver.

(a) Waiver of Deferral. A Participant who is determined to be suffering from a Disability shall continue to be eligible for the benefits provided in Articles 3, 6, 7, 8 or 9 in accordance with the provisions of those Articles. However, such Disabled Participant shall be excused from fulfilling his or her Annual Deferral Amount commitment that would otherwise have been withheld during the remainder of the Plan Year in which the Participant first suffers the Disability. During the period of Disability, the Participant shall not be allowed to make any additional deferral elections.

(b) Deferral Following Disability. If a Participant returns to employment with an Employer after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

8.2 Continued Eligibility; Disability Benefit.

(a) Continued Eligibility. A Participant suffering a Disability shall, for benefit purposes under this Plan, continue to be considered to be employed, and shall be eligible for the benefits provided for in Articles 3, 6, 7 or 9 in accordance with the provisions of those Articles. Notwithstanding the above, the Committee shall have the right to, in its sole and absolute discretion and for purposes of this Plan only, deem the Participant's employment to have terminated at any time after such Participant is determined to be suffering a Disability.

(b) Deemed Termination of Employment. If, in the Committee's discretion, the Disabled Participant's employment has terminated, and such Participant is not otherwise eligible to Retire, the Participant shall be deemed to have experienced a Termination of Employment for purposes of this Plan and will receive a Disability Benefit. The Disability Benefit shall be equal to his or her Account Balance, calculated as of the close of business on or around the date on which the Disabled Participant is deemed to have experienced a Termination of Employment, as determined by the Committee in its sole discretion. The Participant shall receive his or her Disability Benefit in a lump sum payment no later than sixty (60) days after the date on which the Committee deems the Disabled Participant to have experienced a Termination of Employment.

(c) Deemed Retirement. If, in the Committee's discretion, the Disabled Participant's employment has terminated, and such Participant is otherwise eligible to Retire, the Participant shall be deemed to have Retired for purposes of this Plan and will receive a Disability Benefit. The Disability Benefit shall be equal to his or her Account Balance, calculated as of the close of business on or around the date on which the Participant is deemed to have Retired, as determined by the Committee in its sole discretion. The Participant shall receive his or her Disability Benefit in the same form in which such Participant elected to receive his or her Retirement Benefit. The lump sum payment shall be made, or installment payments shall commence, no later than sixty (60) days after the date on which the Disabled Participant is deemed to have Retired. Remaining installments, if any, shall be paid no later than sixty (60) days after each anniversary of the date on which the Disabled Participant is deemed to have Retired.

ARTICLE 9
Survivor Benefit

9.1 Survivor Benefit. The Participant's Beneficiary(ies) shall receive a Survivor Benefit upon the Participant's death which will be equal to the Participant's Account Balance, calculated as of the close of business on or around the date of the Participant's death, as selected by the Committee in its sole discretion, if the Participant dies prior to (i) his or her Retirement, Termination of Employment or Disability, or (ii) the complete distribution of his or her Retirement Benefit or Disability Benefit, calculated as of the close of business on or around the date of the Participant's death, as selected by the Committee in its sole discretion.

9.2 Payment of Survivor Benefit. The Survivor Benefit shall be paid to the Participant's Beneficiary(ies) in a lump sum payment no later than sixty (60) days after the date on which the Committee is provided with proof that is satisfactory to the Committee of the Participant's death.

ARTICLE 10
Beneficiary Designation

10.1 Beneficiary. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.

10.2 Beneficiary Designation; Change of Beneficiary Designation. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.

10.3 Acknowledgment. No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.

10.4 No Beneficiary Designation. If a Participant fails to designate a Beneficiary as provided in Sections 10.1, 10.2 and 10.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.

10.5 Doubt as to Beneficiary. If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.

10.6 Discharge of Obligations. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

ARTICLE 11
Leave of Absence

11.1 Paid Leave of Absence. If a Participant is authorized by the Participant's Employer to take a paid leave of absence from the employment of the Employer, (i) the Participant shall continue to be considered eligible for the benefits provided in Articles 3, 5, 6, 7, 8 or 9 in accordance with the provisions of those Articles, and (ii) the Annual Deferral Amount shall continue to be withheld during such paid leave of absence in accordance with Section 3.3.

11.2 Unpaid Leave of Absence. If a Participant is authorized by the Participant's Employer to take an unpaid leave of absence from the employment of the Employer for any reason, such Participant shall continue to be eligible for the benefits provided in Articles 3, 5, 6, 7, 8 or 9 in accordance with the provisions of those Articles. However, the Participant shall be excused from fulfilling his or her Annual Deferral Amount commitment that would otherwise have been withheld during the remainder of the Plan Year in which the unpaid leave of absence is taken. During the unpaid leave of absence, the Participant shall not be allowed to make any additional deferral elections. However, if the Participant returns to employment, the

Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

ARTICLE 12
Termination, Amendment or Modification

12.1 Termination. Although the Employer anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that the Employer will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, the Employer reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of its participating Employees, by action of its board of directors. Upon the termination of the Plan with respect to the Employer, the Plan Agreements of the affected Participants who are employed by that Employer, shall terminate and their Account Balances shall be determined (i) as if they had experienced a Termination of Employment on the date of Plan termination; or (ii) if Plan termination occurs after the date upon which a Participant was eligible to Retire, then with respect to that Participant as if he or she had Retired on the date of Plan termination. Such benefits shall be paid to the Participants as follows: (i) prior to a Change in Control, if the Plan is terminated with respect to all of its Participants, the Employer shall have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay such benefits in a lump sum or pursuant to an Annual Installment Method of up to ten (10) years, with amounts credited and debited during the installment period as provided herein; or (ii) prior to a Change in Control, if the Plan is terminated with respect to less than all of its Participants, the Employer shall be required to pay such benefits in a lump sum; or (iii) after a Change in Control, if the Plan is terminated with respect to some or all of its Participants, the Employer shall be required to pay such benefits in a lump sum. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination; provided, however, that the Employer shall have the right to accelerate installment payments without a premium or prepayment penalty by paying the Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

12.2 Amendment. The Employer may, at any time, amend or modify the Plan in whole or in part by the action of the Board; provided, however, that: (i) no amendment or modification shall be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification, and (ii) no amendment or modification of this Section 12.2 or Section 13.2 of the Plan shall be effective. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification; provided, however, that the Employer shall have the right to accelerate installment payments by paying the Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

12.3 Plan Agreement. Despite the provisions of Sections 12.1 and 12.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer may only amend or terminate such provisions with the written consent of the Participant.

12.4 Effect of Payment. The full payment of the Participant's Account Balance under Articles 3, 6, 7, 8 or 9 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Plan Agreement shall terminate.

ARTICLE 13
Administration

13.1 Committee Duties. Except as otherwise provided in this Article 13 this Plan shall be administered by such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Bank.

13.2 Administration Upon Change In Control. For purposes of this Plan, the Committee shall be the "Administrator" at all times prior to the occurrence of a Change in Control. Within thirty (30) days following a Change in Control, an independent third party trustee shall be appointed under the Trust and at all times prior to the distribution of all Account Balances under the Plan, the Trust shall not be terminated or modified and an independent third party trustee shall be the trustee of the Trust.

13.3 Agents. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to the Employer.

13.4 Binding Effect of Decisions. The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

13.5 Indemnity of Committee. All Employers shall indemnify and hold harmless the members of the Committee, any Employee to whom the duties of the Committee may be delegated, and the Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, any such Employee or the Administrator.

13.6 Employer Information. To enable the Committee and/or Administrator to perform its functions, the Bank and each Employer shall supply full and timely information to the Committee and/or Administrator, as the case may be, on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

ARTICLE 14
Other Benefits and Agreements

14.1 Coordination with Other Benefits. The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Participant's Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 15
Claims Procedures

15.1 Presentation of Claim. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within sixty (60) days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

15.2 Notification of Decision. The Committee shall consider a Claimant's claim within a reasonable time, but no later than ninety (90) days after receiving the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial ninety (90) day period. In no event shall such extension exceed a period of ninety (90) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. The Committee shall notify the Claimant in writing:

(a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or

(b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:

(i) the specific reason(s) for the denial of the claim, or any part of it;

(ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;

(iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary;

(iv) an explanation of the claim review procedure set forth in Section 15.3 below; and

(v) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

15.3 Review of a Denied Claim. On or before sixty (60) days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. The Claimant (or the Claimant's duly authorized representative):

(a) may, upon request and free of charge, have reasonable access to, and copies of, all documents, records and other information relevant to the claim for benefits;

(b) may submit written comments or other documents; and/or

(c) may request a hearing, which the Committee, in its sole discretion, may grant.

15.4 Decision on Review. The Committee shall render its decision on review promptly, and no later than sixty (60) days after the Committee receives the Claimant's written request for a review of the denial of the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial sixty (60) day period. In no event shall such extension exceed a period of sixty (60) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. In rendering its decision, the Committee shall take into account all comments, documents, records and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

(a) specific reasons for the decision;

(b) specific reference(s) to the pertinent Plan provisions upon which the decision was based;

(c) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits; and

(d) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a).

15.5 Legal Action. A Claimant's compliance with the foregoing provisions of this Article 15 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

ARTICLE 16
Trust

16.1 Establishment of the Trust. In order to provide assets from which to fulfill the obligations of the Participants and their beneficiaries under the Plan, the Bank may establish a trust by a trust agreement with a third party, the trustee, to which each Employer may, in its discretion, contribute cash or other property, including securities issued by the Bank, to provide for the benefit payments under the Plan, (the "Trust").

16.2 Interrelationship of the Plan and the Trust. The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.

16.3 Distributions From the Trust. Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.

ARTICLE 17
Miscellaneous

17.1 Status of Plan. The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.

17.2 Unsecured General Creditor. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer's assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

17.3 Employer's Liability. An Employer's liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.

17.4 Nonassignability. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

17.5 Not a Contract of Employment. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between the Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of the Employer, or to interfere with the right of the Employer to discipline or discharge the Participant at any time.

17.6 Furnishing Information. A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

17.7 Terms. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

17.8 Captions. The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

17.9 Governing Law. Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Indiana without regard to its conflicts of laws principles.

17.10 Notice. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Lake City Bank
202 E. Center Street
Warsaw, Indiana 46580
Attn: Chief Financial Officer

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

17.11 Successors. The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.

17.12 Spouse's Interest. The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

17.13 Validity. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

17.14 Incompetent. If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

17.15 Court Order. The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.

17.16 Distribution in the Event of Taxation.

(a) In General. If, for any reason, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, a Participant may petition the Committee before a Change in Control, or the trustee of the Trust after a Change in Control, for a distribution of that portion of his or her benefit that has become taxable. Upon the grant of such a petition, which grant shall not be unreasonably withheld (and, after a Change in Control, shall be granted), a Participant's Employer shall distribute to the Participant immediately available funds in an amount equal to the taxable portion of his or her benefit (which amount shall not exceed a Participant's unpaid Account Balance under the Plan). If the petition is granted, the tax liability distribution shall be made within ninety (90) days of the date when the Participant's petition is granted. Such a distribution shall affect and reduce the benefits to be paid under this Plan.

(b) Trust. If the Trust terminates in accordance with its terms and benefits are distributed from the Trust to a Participant in accordance therewith, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.

17.17 Insurance. The Employers, on their own behalf or on behalf of the trustee of the Trust, and, in their sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the Trust may choose. The Employers or the trustee of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Employers shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Employers have applied for insurance.

17.18 Legal Fees. In the event of any dispute under the Plan, the party which is successful on the merits pursuant to a legal judgment, arbitration or settlement shall be entitled to recover from the other party all of the prevailing party's costs of counsel, fees, and expenses incurred.

IN WITNESS WHEREOF, the Bank has signed this Plan document as of December 31, 2003.

LAKE CITY BANK, an Indiana state bank

/s/DAvid M. Findlay

By: David M. Findlay

Title: EVP & CFO

ACTION REQUIRED: MUST BE RETURNED BY DECEMBER 3, 2003

Participant
Election Form A
Deferred Compensation Plan

Name (Last, First, Middle Initial) Social Security Number

You may use this form to:

- Indicate the amount of your Base Annual Salary, Annual Bonus (earned in 2004; paid in 2005), and Annual Bonus (earned in 2005; paid in 2006) that you wish to defer during the 2004 Plan Year.
- Elect an optional In-Service Distribution. (Note: If you choose not to elect an In-Service Distribution or you elect to receive less than 100% of your Annual Deferral Amount as an In Service Distribution, the remainder of your Annual Deferral Amount and any related investment gains or losses will be paid to you along with the rest of your vested Account Balance pursuant to the Plan.)
- Allocate new deferrals among the available measurement fund options
- Select the form of your Retirement Benefit payment.

BASE ANNUAL SALARY DEFERRAL ELECTION — Please select all that apply; fill in the appropriate blanks with whole percentages or whole dollars amounts.

[ ] I irrevocably elect to defer _____% or $_________ of my Base Annual Salary earned in 2005 (maximum of 50% of Base Annual Salary).

[ ] I elect not to defer my 2005 Base Annual Salary.

OPTIONAL IN-SERVICE DISTRIBUTION ELECTION — This election will include amounts from the Merit Increase deferral, if elected. Fill in the appropriate blanks with whole percentages or whole dollar amounts.

[ ] I irrevocably elect to receive a lump sum In-Service Distribution of my 2005 Base Annual Salary Deferral Amount and 2005 Merit Increase, as well as any investment gains or losses attributable to such amounts, payable within 60 days of January 1, _________ (must be 2009 or later).

Please state the percentage or dollar value of the Base Annual Salary Deferral Amount (and any investment gains or losses) you would like to receive as an In-Service Distribution: ____________% or $____________.

2004 ANNUAL BONUS DEFERRAL ELECTION — Please select all that apply; fill in the appropriate blanks with whole percentages or whole dollar amounts.

[ ] I irrevocably elect to defer _____% or $_________ of my 2004 Annual Bonus payable in 2005 -or- I elect to defer _____% above $_______ of my 2004 Annual Bonus payable in 2005 (maximum of 100% above $0).

[ ] I elect not to defer my 2004 Annual Bonus payable in 2005.

OPTIONAL IN-SERVICE DISTRIBUTION ELECTION — Fill in the appropriate blanks with whole percentages or whole dollar amounts.

[ ] I irrevocably elect to receive a lump sum In-Service Distribution of my 2004 Annual Bonus Deferral Amount payable in 2005, as well as any investment gains or losses attributable to such amounts, payable within 60 days of January 1, _________ (must be 2009 or later).

Please state the percentage or dollar value of the 2004 Annual Bonus Deferral Amount payable in 2005 (and any investment gains or losses) you would like to receive as an In-Service Distribution: ____________% or $____________.

2005 ANNUAL BONUS DEFERRAL ELECTION — Please select all that apply; fill in the appropriate blanks with whole percentages or whole dollar amounts.

[ ] I irrevocably elect to defer _____% or $_________ of my 2005 Annual Bonus payable in 2006 -or- I elect to defer _____% above $_______ of my 2005 Annual Bonus payable in 2006 (maximum of 100% above $0).

[ ] I elect not to defer my 2005 Annual Bonus payable in 2006.

OPTIONAL IN-SERVICE DISTRIBUTION ELECTION — Fill in the appropriate blanks with whole percentages or whole dollar amounts.

[ ] I irrevocably elect to receive a lump sum In-Service Distribution of my 2005 Annual Bonus Deferral Amount payable in 2006, as well as any investment gains or losses attributable to such amounts, payable within 60 days of January 1, _________ (must be 2010 or later).

Please state the percentage or dollar value of the 2005 Annual Bonus Deferral Amount payable in 2006 (and any investment gains or losses) you would like to receive as an In-Service Distribution:
____________% or $____________.

NEW DEFFERALS ALLOCATION ELECTION — Please select in whole percentage increments; the total must equal 100%.

I elect to allocate my new deferrals to the following Measurement Funds:

[ ]	Travelers Money Market Fund	_______%	[ ]	Smith Barney Large Cap Growth Port.	_______%
[ ]	PIMCO Total Return Portfolio	_______%	[ ]	Fidelity VIP Mid-Cap Portfolio	_______%
[ ]	Fidelity Equity Income Portfolio	_______%	[ ]	Scudder VIT Small Cap Index Fund	_______%
[ ]	Fidelity VIP Contra Fund	_______%	[ ]	Templeton International Securities	_______%
[ ]	Travelers Equity Index Portfolio	_______%			

RETIREMENT BENEFIT DISTRIBUTION ELECTION — Please select lump sum or annual installments; fill in the number of years, if necessary.

|X| I elect to receive a Retirement Benefit in the manner indicated below, to the extent allowed by the Plan (select one payment option below). This election will apply to all Retirement Benefits and replaces any similar distribution elections previously made. This election can be modified through a subsequent election if such election is made in accordance with the Plan.

[ ] A lump sum payment

[ ] Annual payments for _____ years (up to 20 years).

ACKNOWLEDGED AND AGREED: ACCEPTED

Signature of Participant Date Signature of Committee Member Date

Exhibit 10.9

Schedule of Board Fees

The Compensation Committee and Board of Directors of Lakeland Financial Corporation adopted the following fee schedule effective January 1, 2005:

Annual Director Retainer:	$ 9,500
Annual Audit Committee Chairman Retainer:	$ 10,500
Board Meeting Fee:	$ 700 per meeting
Committee Meeting Fee:	$ 600 per meeting

Exhibit 10.10

Form of Option Grant Agreement

"Month DD, YYYY"

"Name"
"Address"
"Address"

Dear "Name":

"Pursuant to the terms and conditions of the company's 1997 Share Incentive Plan (the 'Plan'), you have been granted an Incentive Stock Option to purchase "Number" shares (the 'Option') of stock as outlined below."

Granted To: "Name"

Grant Date: "Month DD, YYYY"
Options Granted: "Number"

Option Price per Share: "$Price" Total Cost to Exercise: "$Cost"

Expiration Date: "Month DD, YYYY"

Vesting Schedule: "Schedule"
"Number on MM/DD/YYYY"

"By my signature below, I hereby acknowledge receipt of this Option granted on the date shown above, which has been issued to me under the terms and conditions of the Plan. I further acknowledge receipt of the copy of the Plan and agree to conform to all " of the terms and conditions of the Option and the Plan."

Signature: ____ Date: ________________

"Name"

"Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form."

Exhibit 10.11

Executive Incentive Bonus Plan

Certain employees are eligible to receive a percentage of their annual salary based on the following criteria:

- 50% of the bonus is based on the percentage of the Bank's net income performance versus the budgeted net income. This 50% amount is calculated as follows: if actual to budgeted net income is at least 70%, the bonus is paid at 50% of the maximum available; if the actual to budgeted net income is at least 80%, the bonus is paid at 70%; if actual to budget net income is at least 90%, the bonus is paid at 90% and so on. Additionally, this portion of the bonus payment is also dependent on the performance of the individual employee over the year.

- 50% of the bonus is based on the performance of the employee against individual goals for the year that are established in the beginning of each year by the employee's supervisor.

Bonuses under the program provide for bonus payments of 5% to 40% of eligible salary.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Board of Directors
Lakeland Financial Corporation
Warsaw, Indiana

We consent to the incorporation by reference in the Registration Statements on Forms S-8 (333-48402 and 333-50135) of Lakeland Financial Corporation of our report, dated February 10, 2005, with respect to the consolidated financial statements of Lakeland Financial Corporation, which report appears in this Annual Report on Form 10-K of Lakeland Financial Corporation for the year ended December 31, 2004.

Crowe Chizek and Company LLC

South Bend, Indiana
March 10, 2005

Exhibit 31.1

Certifications

I, Michael L. Kubacki, Chief Executive Officer of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Lakeland Financial Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in the Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) [intentionally omitted]

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

Date: February 23, 2005

/s/ Michael L. Kubacki
Michael L. Kubacki - Chief Executive Officer

Exhibit 31.2

Certifications

I, David M. Findlay, Chief Financial Officer of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Lakeland Financial Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in the Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) [intentionally omitted]

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

Date: February 23, 2005

/s/ David M. Findlay
David M. Findlay - Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lakeland Financial Corporation (the "Company") on Form 10-K for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report), I, Michael L. Kubacki, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Annual Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Michael L. Kubacki

Michael L. Kubacki
Chief Executive Officer
February 23, 2005

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lakeland Financial Corporation (the "Company") on Form 10-K for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report), I, David M. Findlay, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Annual Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David M. Findlay

David M. Findlay
Chief Financial Officer
February 23, 2005