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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the fiscal year ended December 31, 1997
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from _____________ to ____________________

Commission File No. 0-11487

LAKELAND FINANCIAL CORPORATION

(exact name of registrant as specified in its charter)

INDIANA	35-1559596
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Title of each class	Name of each exchange on which registered
Common	The Nasdaq Stock Market's National Market
Preferred Securities of Lakeland Capital Trust	The Nasdaq Stock Market's National Market

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such other period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

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

Aggregate market value of the voting stock held by non-affiliates of the registrant, computed solely for the purposes of this requirement on the basis of the Nasdaq closing value at February 28, 1998, and assuming solely for the purposes of this calculation that all Directors and executive officers of the Registrant are "affiliates": $124,705,335.

Number of shares of common stock outstanding at February 20, 1998: 2,899,495

DOCUMENTS INCORPORATED BY REFERENCE

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

Part	Document
I, II & IV	Lakeland Financial Corporation's Annual Report to Shareholders for year ended December 31, 1997, parts of which are incorporated into Parts I, II and IV of this Form 10-K.
III	Proxy statement mailed to Shareholders on March 16, 1998, which is incorporated into Part III of this Form 10-K.

PART I.

ITEM 1. BUSINESS

The registrant was incorporated under the laws of the State of Indiana on February 8, 1983. As used herein, the terms "Registrant" and "Company" refer to Lakeland Financial Corporation or, if the context dictates, the Lakeland Financial Corporation and its wholly-owned subsidiaries, Lake City Bank, Warsaw, Indiana, and Lakeland Capital Trust, Warsaw, Indiana.

General

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

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

The Bank's main banking office is located at 202 East Center Street, Warsaw, Indiana. As of December 31, 1997, the Bank had nine branch offices and one drive-up facility in Kosciusko County, nine branch offices in Elkhart County, five branch offices in Noble County, three branch offices in Wabash County, two branch offices in LaGrange County, two branch offices in Marshall County, two branch offices in St. Joseph County, two branch offices and one drive-up facility in Fulton County, one branch office in Cass County, one branch office in Huntington County, one branch office in Pulaski County and one branch office in Whitley County. The Bank's operations center is located at 113 East Market Street, Warsaw, Indiana.

SUPERVISION AND REGULATION. The Company and the Bank are extensively regulated under federal and state law. These laws and regulations are intended to protect depositors, not shareholders. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Company, and the operations of the Company may be affected by legislative changes and by the policies of various regulatory authorities. The Company is unable to predict the nature or the extent of the effects on its business and earnings that fiscal or monetary policies, economic controls or new federal or state legislation may have in the future.

The Company is a registered bank holding company under the Bank Holding Company Act of 1956, as amended ("BHCA"), and, as such, is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company is required to file annual reports with the Federal Reserve and to provide the Federal Reserve such additional information as it may require.

The Bank, as an Indiana state bank, is supervised by the Indiana Department of Financial Institutions (the "DFI") and the Federal Deposit Insurance Corporation ("FDIC"). As such, the Bank is regularly examined by, and is subject to regulations promulgated by, the DFI and the FDIC.

Recent and Pending Legislation

The enactment of the legislation described below has significantly affected the banking industry generally and will have an ongoing effect on the Company and the Bank in the future.

Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") reorganized and reformed the regulatory structure applicable to financial institutions generally. FIRREA, among other things, enhanced the supervisory and enforcement powers for the federal bank regulatory agencies, required insured financial institutions to guaranty repayment of losses incurred by the FDIC in connection with the failure of an affiliated financial institution, required financial institutions to provide their primary federal regulator with notice (under certain circumstances) of changes in senior management and broadened authority for bank holding companies to acquire savings institutions.

Under FIRREA, federal banking regulators have greater flexibility to bring enforcement actions against insured institutions and institution-affiliated parties, including cease and desist orders, prohibition orders, civil money penalties, termination of insurance and the imposition of operating restrictions and capital plan requirements. These enforcement actions, in general, may be initiated for violations of laws and regulations and unsafe or unsound practices. FIRREA also requires, except under certain circumstances, public disclosure of final enforcement actions by the federal banking agencies.

The Federal Deposit Insurance Corporation Improvement Act of 1991. The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") was adopted to recapitalize the FDIC's Bank Insurance Fund ("BIF"), which in general insures the deposits of commercial banks such as the Bank, and imposes certain supervisory and regulatory reforms on insured depository institutions. FDICIA includes provisions, among others, to (i) increase the FDIC's line of credit with the U.S. Treasury in order to provide the FDIC with additional funds to cover the losses of federally insured banks, (ii) reform the deposit insurance system, including the implementation of risk-based deposit insurance premiums, (iii) establish a format for closer monitoring of financial institutions to enable prompt corrective action by banking regulators when a financial institution begins to experience financial difficulty and create five capital levels for financial institutions ("well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized") that would impose more scrutiny and restrictions on less capitalized institutions, (iv) require the federal banking regulators to set operational and managerial standards for all insured depository institutions and their holding companies, including limits on excessive compensation to executive officers, directors, employees and principal shareholders, and establish standards for loans secured by real estate, (v) adopt certain accounting reforms, including the authority of banking regulators to require independent audits of banks and thrifts, and require on-site examinations of federally insured institutions within specified timeframes, (vi) revise risk-based capital standards to ensure that they (a) take adequate account of interest-rate changes, concentration of credit risk and the risks of nontraditional activities, and (b) reflect the actual performance and expected risk of loss of multi-family mortgages, and (vii) restrict state-chartered banks from engaging in activities not permitted for national banks unless they are adequately capitalized and have FDIC approval. FDICIA also permits the FDIC to make special assessments on insured depository institutions, in amounts determined by the FDIC to be necessary to give it adequate assessment income to repay amounts borrowed from the U.S. Treasury and other sources or for any other purpose the FDIC deems necessary and grants authority to the FDIC to establish semiannual assessment rates on financial institutions that are members of either the BIF or the Savings Association Insurance Fund ("SAIF"), which in general insures the deposits of thrifts, in order to maintain these funds at the designated reserve ratios.

FDICIA also contained the Truth in Savings Act, which requires clear and uniform disclosure of the rates of interest payable on deposit accounts by depository institutions, and the fees assessable against deposit accounts, so that consumers can make a meaningful comparison between the competing claims of financial institutions with regard to deposit accounts and products.

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. Congress enacted the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act") in September 1994. Beginning in September 1995, bank holding companies have the right to expand, by acquiring existing banks, into all states, even those which had theretofore restricted entry. The legislation also provides that holding companies have the right, starting on June 1, 1997, to convert the banks that they own in different states to branches of a single bank. A state was permitted to "opt out" of this law but was not permitted to "opt out" of the law allowing bank holding companies from other states to enter the state. A state may also determine, at its option, to permit interstate branching through the establishment of de novo branches by out-of-state banks. The State of Indiana did not "opt out" of the interstate branching provisions of the Interstate Act and has authorized the establishment of de novo branches of out-of-state banks. The Interstate Act also establishes limits on acquisitions by large banking organizations by providing that no acquisition may be undertaken if it would result in the organization having deposits exceeding either 10% of all bank deposits in the United States or 30% of the bank deposits in the state in which the acquisition would occur.

Economic Growth and Regulatory Paperwork Reduction Act of 1996. The Economic Growth and Regulatory Paperwork Reduction Act of 1996 (the "EGRPRA") was signed into law on September 30, 1996. EGRPRA streamlined the non-banking activities application process for well-capitalized and well-managed bank holding companies. Under EGRPRA, qualified bank holding companies may commence a regulatorily approved non-banking activity without prior notice to the Federal Reserve; written notice is required within 10 days after commencing the activity. Under EGRPRA, the prior notice period is reduced to 12 days in the event of any non-banking acquisition or share purchase, assuming the size of the acquisition does not exceed 10% of risk-weighted assets of the acquiring bank holding company and the consideration does not exceed 15% of Tier 1 capital. EGRPRA also provided for the recapitalization of the SAIF in order to bring it into parity with the BIF.

Pending Legislation. Because of concerns relating to competitiveness and the safety and soundness of the banking industry, Congress is considering a number of wide-ranging proposals for altering the structure, regulation and competitive relationships of the nation's financial institutions. It cannot be predicted whether or in what form any of these proposals will be adopted or the extent to which the business of the Company may be affected thereby.

Bank and Bank Holding Company Regulation

As noted above, both the Company and the Bank are subject to extensive regulation and supervision.

Bank Holding Company Act. Under the BHCA, the activities of a bank holding company, such as the Company, are limited to business so closely related to banking, managing or controlling banks as to be a proper incident thereto. The Company is also subject to capital requirements applied on a consolidated basis in a form substantially similar to those required of the Bank. The BHCA requires a bank holding company to obtain approval from the Federal Reserve before (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares), (ii) acquiring all or substantially all of the assets of another bank or bank holding company, or (iii) merging or consolidating with another bank holding company. The Federal Reserve will not approve any acquisition, merger or consolidation that would have a substantially anticompetitive result, unless the anticompetitive effects of the proposed transaction are clearly outweighed by a greater public interest in meeting the convenience and needs of the community to be served. The Federal Reserve also considers capital adequacy and other financial and managerial factors in reviewing acquisitions or mergers.

The BHCA also prohibits a bank holding company, with certain limited exceptions, (i) from acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or (ii) from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which, by statute or by Federal Reserve regulation or order, have been identified as activities closely related to the business of banking or of managing or controlling banks. The Federal Reserve, in making such determination, considers whether the performance of such activities by a bank holding company can be expected to produce benefits to the public such as greater convenience, increased competition or gains in efficiency in resources, which can be expected to outweigh the risks of possible adverse effects such as decreased or unfair competition, conflicts of interest or unsound banking practices.

Insurance of Accounts. The FDIC provides insurance, through the BIF, to deposit accounts at the Bank to a maximum of $100,000 for each insured depositor. On January 1, 1996, the FDIC adopted an amendment to its BIF risk-based assessment schedule which effectively eliminated deposit insurance assessments for most commercial banks and other depository institutions with deposits insured by the BIF only. Following enactment of EGRPRA, the overall assessment rate for 1997 for institutions in the lowest risk-based premium category was revised to equal 1.29 cents for each $100 of BIF-assessable deposits. Deposits insured by the SAIF continue to be assessed at a higher rate. At this time, the BIF deposit insurance assessment rate for institutions in the lowest risk-based premium category is zero, and the additional assessments paid by institutions in this category are used to service debt issued by the Financing Corporation, a federal agency established to finance the recapitalization of the former Federal Savings and Loan Insurance Corporation.

Regulations Governing Capital Adequacy. The federal bank regulatory agencies use capital adequacy guidelines in their examination and regulation of bank holding companies and banks. If the capital falls below the minimum levels established by these guidelines, the bank holding company or bank may be denied approval to acquire or establish additional banks or nonbank businesses or to open facilities.

The Federal Reserve and the FDIC adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profile among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. Under these guidelines, all bank holding companies and federally regulated banks must maintain a minimum risk-based total capital ratio equal to 8%, of which at least one-half must be Tier 1 capital.

The Federal Reserve also has implemented a leverage ratio, which is Tier 1 capital to total assets, to be used as a supplement to the risk-based guidelines. The principal objective of the leverage ratio is to place a constraint on the maximum degree to which a bank holding company may leverage its equity capital base. The Federal Reserve requires a minimum leverage ratio of 3%. For all but the most highly-rated bank holding companies and for bank holding companies seeking to expand, however, the Federal Reserve expects that additional capital sufficient to increase the ratio by at least 100 to 200 basis points will be maintained.

Management of the Company believes that the risk-weighting of assets and the risk-based capital guidelines do not have a material adverse impact on the Company's operations or on the operations of the Bank.

Community Reinvestment Act. The Community Reinvestment Act of 1977 requires that, in connection with examinations of financial institutions within their jurisdiction, the federal banking regulators must evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those banks. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility.

Regulations Governing Extensions of Credit. The Bank is subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to the bank holding company or its subsidiaries, or investments in their securities and on the use of their securities as collateral for loans to any borrowers. These regulations and restrictions may limit the ability of the Company to obtain funds from the Bank for its cash needs, including funds for acquisitions and for payment of dividends, interest and operating expenses. Further, under the BHCA and certain regulations of the Federal Reserve, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

The Bank is also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders or any related interest of such persons. Extensions of credit (i) must be made on substantially the same terms, including interest-rates and collateral as, and following credit underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions with persons not covered above and who are not employees, and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. The Bank is also subject to certain lending limits and restrictions on overdrafts to such persons.

Reserve Requirements. The Federal Reserve requires all depository institutions to maintain reserves against their transaction accounts and non-personal time deposits. Reserves of 3% must be maintained against total transaction accounts of $49.3 million or less (subject to adjustment by the Federal Reserve) and an initial reserve of $1,479,000 plus 10% (subject to adjustment by the Federal Reserve to a level between 8% and 14%) must be maintained against that portion of total transaction accounts in excess of such amount. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements.

Dividends. The ability of the Bank to pay dividends and management fees is limited by various state and federal laws, by the regulations promulgated by its primary regulators and by the principles of prudent bank management.

Monetary Policy and Economic Control. The commercial banking business in which the Company engages is affected not only by general economic conditions, but also by the monetary policies of the Federal Reserve. Changes in the discount rate on member bank borrowing, availability of borrowing at the "discount window," open market operations, the imposition of changes in reserve requirements against member banks deposits and assets of foreign branches, and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates are some of the instruments of monetary policy available to the Federal Reserve. These monetary policies are used in varying combinations to influence overall growth and distributions of bank loans, investments and deposits, and such use may affect interest rates charged on loans or paid on deposits. The monetary policies of the Federal Reserve have had a significant effect on the operating results of commercial banks and are expected to do so in the future. The monetary policies of the Federal Reserve are influenced by various factors, including inflation, unemployment, short-term and long-term changes in the international trade balance and in the fiscal policies of the U.S. Government. Future monetary policies and the effect of such policies on the future business and earnings of the Company and the Bank cannot be predicted.

Forward-looking Statements

Statements contained in this Report and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases and in oral statements made with the approval of an authorized executive officer which are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended). There can be no assurance, in light of certain risks and uncertainties, that such forward-looking statements will in fact transpire. The following important factors, risks and uncertainties, among others, could cause actual results to differ materially from such forward-looking statements:

Credit risk: Approximately 59.5% and 60.1% of the Company's loans at December 31, 1997 and December 31, 1996, respectively, were commercial in nature (including agri-business and agricultural loans), and, as of both December 31, 1997 and December 31, 1996, the Company estimates that in excess of 90% of the Bank's commercial, industrial, agri-business and agricultural real estate mortgage loans, real estate construction mortgage and consumer loans are made within the Bank's basic trade area. Changes in local and national economic conditions could adversely affect credit quality in the Company's loan portfolio.

Interest rate risk: Although the Company actively manages its interest rate sensitivity, such management is not an exact science. Rapid increases or decreases in interest rates could adversely impact the Company's net interest margin if changes in its cost of funds do not correspond to the changes in income yields.

Competition: The Company's activities involve competition with other banks as well as other financial institutions and enterprises. Also, the financial service markets have and likely will continue to experience substantial changes, which could significantly change the Company's competitive environment in the future.

Legislative and regulatory environment: The Company operates in a rapidly changing legislative and regulatory environment. It cannot be predicted how or to what extent future developments in these areas will affect the Company. These developments could negatively impact the Company through increased operating expenses for compliance with new laws and regulations, restricted access to new products and markets, or in other ways.

General business and economic trends: General business and economic trends, including the impact of inflation levels, influence the Company's results in numerous ways, including operating expense levels, deposit and loan activity, and availability of trained individuals needed for future growth.

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

The foregoing list should not be construed as exhaustive and the Company disclaims any obligation to subsequently update or revise any forward-looking statements after the date of this Report.

Material Changes and Business Developments

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

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

Competition

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

The Bank's service area is north central 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 the large commercial deposit and loan accounts. The Bank is presently subject to an aggregate maximum loan limit to any single account in the amount of $9,141,000 pursuant to Indiana law. This maximum prohibits the Bank from providing a full range of banking services to those businesses or personal accounts whose borrowing periodically exceed this amount. In order to retain at least a portion of the bank business of these large borrowers, the Bank maintains correspondent relationships with other financial institutions. The Bank also participates with local and other banks in the placement of large borrowings in excess of its lending limit. The Bank is also a member of the Federal Home Loan Bank of Indianapolis in order to broaden its mortgage lending and investment activities and to provide additional funds, if necessary, to support these activities.

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

Employees
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At December 31, 1997, the Registrant, including its subsidiary corporation, had 388 full-time equivalent employees. Benefit programs include a pension plan, 401(k) plan, group medical insurance, group life insurance and paid vacations. The bank is not a party to any collective bargaining agreement, and employee relations are considered good.

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

Year 2000 Issues
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The Company relies heavily on computer technology to provide its products and services. Competitive pressures also require the Company to invest in and utilize current technology. Due to the reliance on this technology, the Year 2000 issue will have a pervasive effect on the Company's products, especially those with interest calculations, and the services it provides. It will also have a significant impact on the items necessary to remain competitive including internal management reports, customer information, and customer conveniences such as ATM's, telephone banking and debit cards.

The potential financial impact on the Company can be segregated into three components; software costs, hardware costs, and other electrical and mechanical equipment costs. For the Company, the potential software costs are not anticipated to be material. The Company does not develop its own software but purchases processing and software from outside vendors. The hardware the Company uses consists primarily of personal computers, ATM's, telephone systems, and back room equipment such as document processing and imaging equipment. Recently the Company began updating its wide and local area networks (WAN/LAN)and its teller platform system as part of its continuing expansion and commitment to technology. The WAN/LAN and teller platform system being installed are Year 2000 compliant. The costs for upgrading to Year 2000 compliant hardware, outside the normal cost of business, are not anticipated to be material based upon the Company's initial review of its current hardware. The costs for upgrading other electrical and mechanical equipment, such as security equipment and HVAC (heating, ventilation, and air conditioning) equipment, has not been determined.

The Company is taking a proactive approach to the Year 2000 issue. A Year 2000 Task Force has been formed and is comprised of representatives from all major departments and includes involvement of an Executive Officer to provide senior management support and to report periodically to the Board of Directors on the Year 2000 effort. The task force has developed a general plan of action to ensure the Company addresses the critical Year 2000 issues. A master inventory of all software and hardware in use by the Company is being compiled. All software vendors are being requested to provide a written statement regarding their Year 2000 efforts and compliance. This statement has been requested to be received no later than the end of the second quarter of 1998. FiServ, Pittsburgh, PA, is the primary data processing vendor the Company uses. FiServ processes all the major applications for the Company including deposits, loans, and general ledger. FiServ is one of the leading data processing vendors for the banking industry and has indicated a commitment to being Year 2000 compliant by December, 1998. They issue a quarterly newsletter specifically on the Year 2000 efforts and have indicated their systems will be audited for Year 2000 compliance by McGladrey and Pullen.

The support and network software the Company uses is purchased from outside vendors. Any software where the vendor is unable to confirm the software is Year 2000 compliant, or does not provide a statement on Year 2000 compliance, will be evaluated to determine the potential impact of noncompliance and availability of alternative compliant software.

As previously indicated, the hardware the Company uses primarily consists of personal computers, ATM's and various other equipment. The majority of the personal computers the Company uses have been purchased during the last two years and therefore have a high probability of being Year 2000 compliant. However, all personal computers are being tested for Year 2000 compliance. The vendors of the ATM's and back room processing equipment used by the Company have been contacted regarding the compliance of the models used by the Company. All hardware failing the tests or known to be noncompliant will be evaluated as to the possible effect of noncompliance and the need for replacement.

All purchases of software and hardware are processed through the MIS/Network Services Department of the Company. This is intended to ensure all new software and hardware or upgrades are compatible with existing systems and are Year 2000 compliant.

Other electrical and mechanical equipment will also be evaluated as to reliance on computer software and the possible effect of the year 2000. Major components of this equipment include security and HVAC equipment. The Company's security officer is to review all security equipment before the end of the third quarter, 1998 to determine the reliance on computer systems and the potential impact of the Year 2000 issue. The Company's facilities manager is to evaluate the other equipment such as HVAC and elevators to determine reliance on computer systems and obtain statements as to Year 2000 compliance from vendors as necessary.

Other areas of concern being addressed by the task force include vendors that exchange information with the Company electronically, forms and documents that are produced externally, and customers. The Year 2000 compliance could have a major impact on the financial performance of the Company's customers which could affect both deposit relationships and the customer's ability to repay loans. All large corporate customers are being contacted regarding their Year 2000 efforts. Other customers will be evaluated on a case-by-case basis.

Based upon the Company's initial evaluations, becoming Year 2000 compliant is not anticipated to have a material impact on the Company's financial statements. In addition, management believes it is taking the necessary steps to ensure the Company's systems will be Year 2000 compliant in a timely manner. On February 24, 1998, the FDIC reviewed the Company's Year 2000 efforts. No significant concerns were brought to management's attention during the review.

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

	1997			1996		
	Average Balance	Interest Income	Yield*	Average Balance	Interest Income	Yield*
ASSETS						
Earning assets:						
Trading account investments	$ 0	$ 0	0.00%	$ 0	$ 0	0.00%
Loans:						
Taxable **	410,798	38,265	9.31	349,336	32,724	9.37
Tax Exempt *	3,235	345	10.66	3,475	373	10.73
Investments:*						
Available-for-sale	80,627	5,396	6.69	84,145	5,371	6.38
Held-to-maturity	136,618	9,244	6.77	119,892	8,065	6.73
Short-term investments	5,275	284	5.38	4,250	226	5.32
Interest bearing deposits	234	19	8.12	213	19	8.92
Total Earning Assets	636,787	53,553	8.41%	561,311	46,778	8.33%
Nonearning assets:						
Cash and due from banks	27,479	0		24,533	0	
Premises and equipment	17,961	0		14,724	0	
Other assets	11,735	0		9,424	0	
Less: allowance for loan losses	(5,302)	0		(5,382)	0	
Total assets	$ 688,660	$ 53,553		$ 604,610	$ 46,778	

* Tax exempt income converted to fully taxable equivalent basis at a 34 percent tax rate for 1997 and 1996. Tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983, includes TEFRA adjustment applicable to nondeductible interest expenses. Nonaccrual loans are included in the above analysis as earning assets - loans.

**Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 1997, and 1996, are included as taxable loan interest income.

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

	1996			1995		
	Average Balance	Interest Income	Yield*	Average Balance	Interest Income	Yield*
ASSETS						
Earning assets:						
Trading account investments	$ 0	$ 0	0.00%	$ 0	$ 0	0.00%
Loans:						
Taxable **	349,336	32,724	9.37	305,806	29,859	9.76
Tax Exempt *	3,475	373	10.73	3,435	389	11.32
Investments:*						
Available-for-sale	84,145	5,371	6.38	67,230	4,223	6.28
Held-to-maturity	119,892	8,065	6.73	120,282	8,072	6.71
Short-term investments	4,250	226	5.32	3,293	192	5.83
Interest bearing deposits	213	19	8.92	108	10	9.26
Total earning assets	561,311	46,778	8.33%	500,154	42,745	8.55%
Nonearning assets:						
Cash and due from banks	24,533	0		20,725	0	
Premises and equipment	14,724	0		12,386	0	
Other assets	9,424	0		7,668	0	
Less: allowance for loan losses	(5,382)	0		(5,238)	0	
Total assets	$ 604,610	$ 46,778		$ 535,695	$ 42,745	

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

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

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

	1997			1996		
	Average Balance	Interest Expense	Rate	Average Balance	Interest Expense	Rate
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities						
Savings deposits	$ 45,278	$ 1,152	2.54%	$ 43,847	$ 1,118	2.55%
Interest bearing checking accounts	55,063	1,180	2.14	53,625	1,178	2.20
Time deposits						
In denominations under $100,000	230,171	12,406	5.39	208,499	11,229	5.39
In denominations over $100,000	109,759	6,445	5.87	86,137	4,886	5.67
Miscellaneous short-term borrowings	90,097	4,921	5.46	78,823	4,213	5.34
Long-term borrowings	29,655	1,956	6.60	19,624	1,113	5.67
Total interest bearing liabilities	560,023	28,060	5.01%	490,555	23,737	4.84%
Non-interest bearing liabilities and stockholders' equity						
Demand deposits	77,276	0		69,459	0	
Other liabilities	6,418	0		5,553	0	
Stockholders' equity	44,863	0		39,043	0	
Total liabilities and stockholders' equity	$ 688,580	$ 28,060	4.08%	$ 604,610	$ 23,737	3.93%
Net interest differential - yield on average daily earning assets		$ 25,493	4.00%		$ 23,041	4.10%

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

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

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

YEAR ENDED DECEMBER 31,

	1997 Over (under) 1996(1)			1996 Over (under) 1995(1)		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST AND LOAN FEE INCOME(2)						
Loans:						
Taxable	$ 5,724	$ (183)	$ 5,541	$ 4,009	$ (1,144)	$ 2,865
Tax exempt	(26)	(2)	(28)	5	(21)	(16)
Investments:						
Available-for-sale	(230)	255	25	1,079	69	1,148
Held-to-maturity	1,131	48	1,179	(26)	19	(7)
Short-term investments	1	57	58	49	(15)	34
Interest bearing deposits	1	(1)	0	9	0	9
Total interest income	6,601	174	6,775	5,125	(1,092)	4,033
INTEREST EXPENSE						
Savings deposits	35	(1)	34	(48)	97	49
Interest bearing checking accounts	31	(29)	2	(41)	(114)	(155)
Time deposits						
In denominations under $100,000	1,168	9	1,177	1,616	(422)	1,194
In denominations over $100,000	1,382	177	1,559	700	(224)	476
Miscellaneous short-term borrowings	614	94	708	629	(219)	410
Long-term borrowings	640	203	843	124	(3)	121
Total interest expense	3,870	453	4,323	2,980	(885)	2,095
INCREASE (DECREASE) IN INTEREST DIFFERENTIALS	$ 2,801	$ (349)	$ 2,452	$ 2,145	$ (207)	$ 1,938

(1) The earning assets and interest bearing liabilities used to calculate interest differentials are based on average daily balances for 1997, 1996 and 1995. 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 converted to fully taxable equivalent basis at a 34 percent tax rate for 1997, 1996 and 1995. Tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983, includes TEFRA adjustment applicable to nondeductible interest expense.

ANALYSIS OF SECURITIES
(in thousands of dollars)

The amortized cost and the fair value of securities as of December 31, 1997, 1996 and 1995 are as follows:

	1997		1996		1995	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale:						
U.S. Treasury securities	$ 28,833	$ 29,286	$ 31,604	$ 31,804	$ 27,549	$ 27,844
U.S. Government agencies and corporations	100	100	500	507	2,150	2,191
Mortgage-backed securities	52,746	53,309	46,002	46,332	48,302	48,843
Obligations of state and political subdivisions	1,787	1,904	2,081	2,167	2,076	2,176
Other debt securities	0	0	1,000	1,032	999	1,066
Total debt securities available-for-sale	$ 83,466	$ 4,599	$ 81,187	$ 81,842	$ 81,076	$ 82,120
Securities held-to-maturity:						
U.S. Treasury securities	$ 21,170	$ 21,501	$ 17,020	$ 17,077	$ 13,611	$ 13,576
U.S. Government agencies and corporations	2,176	2,246	2,262	2,362	2,898	3,033
Mortgage-backed securities	116,788	117,185	83,811	83,719	77,319	77,471
Obligations of state and political subdivisions	22,418	24,044	21,172	22,095	19,047	20,077
Other debt securities	1,007	1,103	1,009	1,120	1,013	1,171
Total debt securities held-to-maturity	$ 163,559	$ 166,079	$ 125,274	$ 126,373	$ 113,888	$ 115,328

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

The maturity distribution (2) and weighted average yields (1) for debt securities portfolio at December 31, 1997, are as follows:

	Within One Year	After One Year Within Five Years	After Five Years Within Ten Years	Over Ten Years
Securities available-for-sale:				
U.S. Treasury securities				
Book value	$ 5,509	$ 23,324	$ 0	$ 0
Yield	4.83%	6.63%		
Government agencies and corporations				
Book value	0	100	0	0
Yield		7.22		
Mortgage-backed securities				
Book value	0	6,819	36,736	9,191
Yield		7.08	6.98	6.50
Obligations of state and political subdivisions				
Book value	298	0	1,489	0
Yield	11.22		8.86	
Other debt securities				
Book value	0	0	0	0
Yield				
Total debt securities available-for-sale:				
Book value	$ 5,807	$ 30,243	$ 38,225	$ 9,191
Yield	5.16%	6.73%	7.04%	6.50%
Securities held-to-maturity:				
U.S. Treasury securities				
Book value	$ 5,002	$ 16,168	$ 0	$ 0
Yield	4.99%	6.37%		
Government agencies and corporations				
Book value	100	2,076	0	0
Yield	9.32	7.71		
Mortgage-backed securities				
Book value	309	18,943	78,339	19,197
Yield	5.42	7.11	6.53	6.33
Obligations of state and political subdivisions				
Book value	8	851	1,737	19,822
Yield	4.76	10.26	8.61	8.77
Other debt securities				
Book value	0	1,007	0	0
Yield		9.62		
Total debt securities held-to-maturity:				
Book value	$ 5,419	$ 39,045	$ 80,076	$ 39,019
Yield	5.10%	7.30%	6.57%	7.57%

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

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

The Registrant segregates its loan portfolio into four basic segments: commercial (including agri-business and agricultural loans), real estate mortgages, installment and credit cards (including personal line of credit loans). The loan portfolio as of December 31, 1997, 1996, 1995, 1994 and 1993 is as follows:

	1997	1996	1995	1994	1993
Commercial loans:					
Taxable	$ 269,887	$ 226,190	$ 192,359	$ 173,325	$ 144,274
Tax exempt	3,065	3,414	3,636	3,207	4,501
Total commercial loans	272,952	229,604	195,995	176,532	148,775
Real estate mortgage loans	65,368	60,949	55,948	47,296	49,816
Installment loans	89,107	71,398	58,175	48,228	46,914
Credit card and line of credit loans	31,207	20,314	17,499	15,900	14,680
Total loans	458,634	382,265	327,617	287,956	260,185
Less allowance for loan losses	5,308	5,306	5,472	4,866	4,010
Net loans	$ 453,326	$ 376,959	$ 322,145	$ 283,090	$ 256,175

The real estate mortgage loan portfolio includes construction loans totaling $3,089, $1,647, $1,224, $426 and $223 as of December 31, 1997, 1996, 1995, 1994 and 1993, respectively. The above loan classifications are based on the nature of the loans as of the loan origination date, and are independent as to the use of the funds by the borrower. There are no foreign loans included in the loan portfolio.

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

Repricing opportunities of the loan portfolio occur either according to predetermined adjustable rate schedules included in the related loan agreements or upon scheduled maturity of each principal payment. The following table indicates the rate sensitivity of the loan portfolio as of December 31, 1997. The table includes the real estate loans held-for-sale and assumes these loans will not be sold during the various time horizons.

	Commercial	Real Estate	Installment	Credit Card and Line of Credit	Total	Percent
Immediately adjustable interest rates or original maturity of one day	$ 193,365	$ 5,730	$ 9,171	$ 31,207	$ 239,473	52.0%
Other within one year	28,298	41,895	25,619	0	95,812	20.8
After one year, within five years	37,216	11,180	48,105	0	96,501	21.0
Over five years	13,353	7,741	6,212	0	27,306	6.0
Nonaccrual loans	720	338	0	0	1,058	0.2
Total loans	$ 272,952	$ 66,884	$ 89,107	$ 31,207	$ 460,150	100.0%

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

Loans due after one year which have a predetermined interest rate and loans due after one year which have floating or adjustable interest rates as of December 31, 1997 amounted to $114,002 and $106,048 respectively.

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

The following is a summary of nonperforming loans as of December 31, 1997, 1996, 1995, 1994 and 1993.

	1997	1996	1995	1994	1993
PART A - PAST DUE ACCRUING LOANS (90 DAYS OR MORE)					
Real estate mortgage loans	$ 0	$ 126	$ 122	$ 0	$ 1
Commercial and industrial loans	236	22	69	16	315
Loans to individuals for household, family and other personal expenditures	69	68	18	19	346
Loans to finance agriculture production and other loans to farmers	0	0	0	0	0
Total past due loans	305	216	209	35	662
PART B - NONACCRUAL LOANS					
Real estate mortgage loans	337	155	76	18	0
Commercial and industrial loans	720	229	456	0	0
Loans to individuals for household, family and other personal expenditures	0	0	0	0	0
Loans to finance agriculture production and other loans to farmers	0	0	0	0	0
Total nonaccrual loans	1,057	384	532	18	0
PART C - TROUBLED DEBT RESTRUCTURED LOANS	1,377	1,284	1,432	1,484	0
Total nonperforming loans	$ 2,739	$ 1,884	$ 2,173	$ 1,537	$ 662

Nonearning assets of the Corporation include nonaccrual loans (as indicated above), nonaccrual investments, other real estate, and repossessions which amounted to $1,317 at December 31, 1997.

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

PART A - CONSUMER LOANS
- -----------------------

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

PART B - NONPERFORMING LOANS
- ----------------------------

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

As of December 31, 1997, loans totaling $1,058,000 were on nonaccrual status.

PART C - TROUBLED DEBT RESTRUCTURED LOANS
- --

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

Loans renegotiated as troubled debt restructurings totaled $1,377,000 as of December 31, 1997. Interest income of $92,000 was recognized in 1997. Had these loans been performing under the original contract terms, an additional $50,000 would have been reflected in interest income during 1997. The Bank is not committed to lend additional funds to debtors whose loans have been modified.

PART D - OTHER NONPERFORMING ASSETS
- -----------------------------------

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

PART E - LOAN CONCENTRATIONS
- ----------------------------

There were no loan concentrations within industries which exceeded ten percent of total assets. It is estimated that over 90% of all the Bank's commercial, industrial, agri-business and agricultural real estate mortgage, real estate construction mortgage and consumer loans are made within its basic trade area.

Basis For Determining Allowance For Loan Losses

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

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

estimate charge-offs in future periods by loan category and thereby establish appropriate reserves for loans not specifically reviewed.

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

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

Based upon the above described policy and objectives, $269,000, $120,000 and $120,000 were charged to the provision for loan losses and added to the allowance for loan losses in 1997, 1996 and 1995, respectively.

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

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

Following is a summary of the loan loss experience for the years ended December 31, 1997, 1996, 1995, 1994 and 1993.

	1997	1996	1995	1994	1993
Amount of loans outstanding, December 31,	$ 458,634	$ 382,265	$ 327,617	$ 287,956	$ 260,185
Average daily loans outstanding during the year ended December 31,	$ 414,033	$ 352,811	$ 309,241	$ 271,391	$ 240,466
Allowance for loan losses, January 1,	$ 5,306	$ 5,472	$ 4,866	$ 4,010	$ 3,095
Loans charged-off					
Commercial	99	171	137	27	99
Real Estate	33	0	48	0	4
Installment	190	158	112	93	97
Credit cards and personal credit lines	37	39	58	15	28
Total loans charged-off	359	368	355	135	228
Recoveries of loans previously charged-off					
Commercial	18	12	26	107	40
Real Estate	0	0	0	1	1
Installment	66	54	63	81	56
Credit cards and personal credit lines	8	16	6	7	6
Total recoveries	92	82	95	196	103
Net loans charged-off	267	286	260	(61)	125
Purchase loan adjustment	0	0	746	0	250
Provision for loan loss charged to expense	269	120	120	795	790
Balance December 31,	$ 5,308	$ 5,306	$ 5,472	$ 4,866	$ 4,010
Ratio of net charge-offs during the period to average daily loans outstanding					
Commercial	0.02%	0.03%	0.03%	(0.03)%	0.02%
Real Estate	0.01	0.01	0.01	0.00	0.00
Installment	0.03	0.00	0.02	0.01	0.02
Credit cards and personal credit lines	0.01	0.04	0.02	0.00	0.01
Total	0.07%	0.08%	0.08%	(0.02)%	0.05%
Ratio of allowance for loan losses to nonperforming assets	176.99%	204.31%	192.20%	208.48%	131.86%

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, 1997, 1996, 1995, 1994 and 1993.

	1997		1996		1995	
	Allowance For Loan Losses	Loans as Percentage of Gross Loans	Allowance For Loan Losses	Loans as Percentage of Gross Loans	Allowance For Loan Losses	Loans as Percentage of Gross Loans
Allocated allowance for loan losses						
Commercial	$ 1,341	59.52	$ 1,213	60.07	$ 811	59.82
Real Estate	131	14.25	123	15.94	112	17.08
Installment	673	19.43	530	18.68	376	17.76
Credit cards and personal credit lines	103	6.80	151	5.31	112	5.34
Total allocated allowance for loan losses	2,248	100.00	2,017	100.00	1,411	100.00
	3,060		3,289		4,061	
Total allowance for loan losses	$ 5,308		$ 5,306		$ 5,472	

	1994		1993	
	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	$ 665	61.31	$ 1,120	57.18
Real Estate	95	16.42	108	19.15
Installment	311	16.75	302	18.04
Credit cards and personal credit lines	101	5.52	95	5.63
Total allocated allowance for loan losses	1,172	100.00	1,625	100.00
	3,694		2,385	
Total allowance for loan losses	$ 4,866		$ 4,010	

ANALYSIS OF DEPOSITS
(in thousands of dollars)

The average daily deposits for the years ended December 31, 1997, 1996 and 1995, and the average rates paid on those deposits are summarized in the following table:

	1997		1996		1995	
	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid
Demand deposits	$ 77,276	0.00	$ 69,459	0.00	$ 60,753	0.00
Savings accounts:						
Regular savings	45,278	2.54	43,847	2.55	46,123	2.32
Interest bearing checking	55,063	2.14	53,625	2.20	55,355	2.41
Time deposits:						
Deposits of $100,000 or more	109,759	5.87	86,137	5.67	73,449	6.00
Other time deposits	230,171	5.39	208,499	5.39	177,992	5.64
Total deposits	$ 517,547	4.09	$ 461,567	3.99	$ 413,672	4.07

As of December 31, 1997 time certificates of deposit in denominations of $100,000 or more will mature as follows:

Within three months	$ 64,990
Over three months, within six months	19,329
Over six months, within twelve months	14,348
Over twelve months	9,830
Total time certificates of deposit in denominations of $100,000 or more	$ 108,497

QUALITATIVE MARKET RISK DISCLOSURE

Management's Discussion and Analysis of Financial Condition and Results of Operations appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 1997 Annual Report and is incorporated herein by reference in response to this item. The Registrant's primary market risk exposure is interest rate risk. The Registrant does not have a material exposure to foreign currency exchange rate risk, does not own any derivative financial instruments and does not maintain a trading portfolio.

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QUANTITATIVE MARKET RISK DISCLOSURE

The following table provides information about 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 table presents principal cash flows and related weighted-average interest rates by contractual maturities as well as the Company's historical experience of the impact of interest-rate fluctuations on the prepayment of residential and home equity loans and mortgage-backed securities. For core deposits (demand deposits, interest-bearing checking, savings and money market deposits) that have no contractual maturity, the table presents principal cash flows and, as applicable, related weighted-average interest rates based upon the Company's historical experience, management's judgment and statistical analysis, as applicable, concerning their most likely withdrawal behaviors. Weighted-average variable rates are based upon rates existing at the reporting date.

	Principal/Notional Amount Maturing in: (Dollars in thousands)							Fair Value
	1998	1999	2000	2001	2002	Thereafter	Total	12/31/97
Rate-sensitive assets:								
Fixed interest rate loans	$ 85,734	$ 38,579	$ 33,630	$ 20,674	$ 17,971	$ 20,309	$ 216,897	$ 215,592
Average interest rate	9.38%	9.10%	8.98%	8.87%	8.77%	8.53%	9.09%	
Variable interest rate loans	$ 102,472	$ 24,403	$ 20,135	$ 22,491	$ 15,970	$ 57,782	$ 243,253	$ 241,791
Average interest rate	9.30%	9.40%	9.51%	9.25%	9.28%	8.15%	9.05%	
Fixed interest rate securities	$ 64,455	$ 37,132	$ 33,906	$ 39,637	$ 25,595	$ 41,049	$ 241,774	$ 245,614
Average interest rate	5.84%	6.46%	6.84%	6.83%	6.63%	6.26%	6.39%	
Variable interest rate securities	$ 5,251	$ 0	$ 0	$ 0	$ 0	$ 0	$ 5,251	$ 5,064
Average interest rate	6.73%	-	-	-	-	-	6.73%	
Other interest-bearing assets	$ 4,445	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4,445	$ 4,445
Average interest rate	5.57%	-	-	-	-	-	5.57%	
Rate sensitive liabilities:								
Non-interest bearing checking	$ 4,802	$ 4,294	$ 774	$ 742	$ 1,080	$ 80,775	$ 92,467	$ 92,467
Average interest rate	-	-	-	-	-	-	-	
Savings & interest bearing checking	$ 9,647	$ 8,715	$ 7,703	$ 7,002	$ 5,620	$ 88,218	$ 126,905	$ 126,905
Average interest rate	2.54%	2.54%	2.54%	2.54%	2.54%	2.54%	2.54%	
Time deposits	$ 310,904	$ 51,652	$ 18,583	$ 6,181	$ 4,783	$ 1,517	$ 393,620	$ 394,543
Average interest rate	4.00%	5.90%	5.95%	6.00%	6.43%	2.50%	4.40%	
Fixed interest rate borrowings	$ 91,867	$ 7,617	$ 0	$ 0	$ 0	$ 19,211	$ 118,695	$ 119,836
Average interest rate	5.41%	6.16%	-	-	-	9.00%	6.04%	
Variable interest rate borrowings	$ 10,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 10,000	$ 10,000
Average interest rate	5.69%	-	-	-	-	-	5.69%	

RETURN ON EQUITY AND ASSETS

The rates of return on average daily assets and stockholders' equity, the dividend payout ratio, and the average daily stockholders' equity to average daily assets for the years ended December 31, 1997, 1996 and 1995 are as follows:

	1997	1996	1995
Percent of net income to:			
Average daily total assets	1.10	1.07	1.05
Average daily stockholders' equity	16.81	16.50	17.06
Percentage of dividends declared per common share to net income per weighted average number of common shares outstanding (2,902,530 shares in 1997, 2,896,992 shares in 1996, and 2,876,992 shares in 1995)	23.08	20.72	18.88
Percentage of average daily stockholders' equity to average daily total assets	6.51	6.46	6.18

SHORT-TERM BORROWINGS

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

	1997	1996	1995
Outstanding at year end	$ 65,467	$ 85,611	$ 58,151
Approximate average interest rate at year end	4.90%	5.11%	5.35%
Highest amount outstanding as of any month end during the year	$ 98,917	$ 89,433	$ 79,334
Approximate average outstanding during the year	$ 83,732	$ 73,728	$ 61,398
Approximate average interest rate during the year	5.45%	5.33%	5.69%

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

ITEM 2. PROPERTIES

The Bank conducts its operations from the following locations:

Branches/Headquarters

Main / Headquarters	202 E. Center St.	Warsaw	IN
Warsaw Drive-up	East Center St.	Warsaw	IN
Akron	102 East Rochester	Akron	IN
Argos	100 North Michigan	Argos	IN
Bremen	1600 Indiana State Road 331	Bremen	IN
Columbia City	601 Countryside Dr.	Columbia City	IN
Concord	4202 Elkhart Road	Goshen	IN
Cromwell	111 North Jefferson St.	Cromwell	IN
Elkhart Beardsley	864 East Beardsley St.	Elkhart	IN
Elkhart East	22050 State Road 120	Elkhart	IN
Elkhart Hubbard Hill	58404 State Road 19	Elkhart	IN
Elkhart Northwest	1208 N. Nappanee St.	Elkhart	IN
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 N. Jefferson St.	Huntington	IN
Kendallville East	631 Professional Way	Kendallville	IN
Kendallville Downtown	113 N. Main St.	Kendallville	IN
LaGrange	901 South Detroit	LaGrange	IN
Ligonier Downtown	222 S. Calvin St.	Ligonier	IN
Ligonier South	1470 U.S. Highway 33 South	Ligonier	IN
Logansport	3900 Highway 24 East	Logansport	IN
Medaryville	Main St.	Medaryville	IN
Mentone	202 East Main St.	Mentone	IN
Middlebury	712 Wayne Ave.	Middlebury	IN
Milford	Indiana State Road 15 North	Milford	IN
Mishawaka	5015 N. Main St.	Mishawaka	IN
Nappanee	202 West Market St.	Nappanee	IN
North Webster	644 North Main St.	North Webster	IN
Pierceton	202 South First St.	Pierceton	IN
Roann	110 Chippewa St.	Roann	IN
Rochester	507 East 9th St.	Rochester	IN
Shipshewana	895 North Van Buren St.	Shipshewana	IN
Silver Lake	102 Main St.	Silver Lake	IN
Syracuse	502 South Huntington	Syracuse	IN
Wabash North	1004 North Cass St.	Wabash	IN
Wabash South	1940 South Wabash St.	Wabash	IN
Warsaw East	3601 Commerce Dr.	Warsaw	IN
Warsaw West	1221 West Lake St.	Warsaw	IN
Winona Lake	99 Chestnut St.	Winona Lake	IN

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

In addition, the Bank owns buildings at 110 South High St., Warsaw, Indiana, and 114-118 East Market St., Warsaw, Indiana, which it uses for various offices and a building at 113 East Market St., Warsaw, Indiana, which it uses for office and computer facilities. The Bank also leases from third parties facilities in Warsaw, Indiana, for the storage of supplies and for employee training.

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

ITEM 3. LEGAL PROCEEDINGS

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

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

No matter was submitted to a vote of security holders from October 1, 1997 to December 31, 1997.

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PART II

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

Information relating to the principal market for and the prices of the Registrant's common stock, and information as to dividends declared by the Registrant, are contained under the caption "Stock and Dividend Information" in the 1997 Annual Report and are incorporated herein by reference in response to this item. On December 31, 1997, the Registrant had 1,136 shareholders, including those employees who participate in the Registrant's 401(K) plan.

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

On January 15, 1997, Lakeland Financial Corporation sold 10,000 shares of authorized but previously unissued common stock for $31.00 per share.

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

ITEM 6. SELECTED FINANCIAL DATA

A five year consolidated financial summary, containing the required selected financial data, appears under the caption "Selected Financial Data" in the 1997 Annual Report and is incorporated herein by reference in response to this item.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 1997 Annual Report and is incorporated herein by reference in response to this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements appear in the 1997 Annual Report and are incorporated herein by reference in response to this item.

Consolidated Balance Sheets at December 31, 1997 and 1996. Consolidated Statements of Income for the years ended December 31, 1997, 1996 and 1995. Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1997, 1996 and 1995. Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995. Notes to Consolidated Financial Statements. Report of Independent Auditors.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information appearing in the Registrant's definitive Proxy Statement dated March 16, 1998, is incorporated herein by reference in response to this item.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing in the Registrant's definitive Proxy Statement dated March 16, 1998, is incorporated herein by reference in response to this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing in the Registrant's definitive Proxy Statement dated March 16, 1998, is incorporated herein by reference in response to this item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing in the Registrant's definitive Proxy Statement dated March 16, 1998, is incorporated herein by reference in response to this item.

PART IV

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

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

(1) Financial Statements.

The following financial statements of the Registrant and its subsidiaries appear in the 1997 Annual Report and are specifically incorporated by reference under Item 8 of this Form 10-K, or are a part of this Form 10-K, as indicated and at the pages set forth below.

	Reference	
	Form 10-K	1997 Annual Report
Consolidated Balance Sheets at December 31, 1997 and 1996.		8
Consolidated Statements of Income for the years ended December 31, 1997, 1996 and 1995.		9
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1997, 1996 and 1995.		10
Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995.		11
Notes to Consolidated Financial Statements.		12-22
Report of Independent Auditors.		23

(2) Financial Statement Schedules

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

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SIGNATURES

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

LAKELAND FINANCIAL CORPORATION

Date: March 10, 1998	By R. Douglas Grant (R. Douglas Grant) President

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

Date: March 10, 1998	R. Douglas Grant (R. Douglas Grant) Principal Executive Officer and Director
Date: March 10, 1998	Terry M. White (Terry M. White) Principal Financial and Accounting Officer
Date: March 10, 1998	Anna K. Duffin (Anna K. Duffin) Director
Date: March 10, 1998	Eddie Creighton (Eddie Creighton) Director
Date: March 10, 1998	L. Craig Fulmer (L. Craig Fulmer) Director
Date: March 10, 1998	Jerry L. Helvey (Jerry L. Helvey) Director
Date: March 10, 1998	Allan J. Ludwig (Allan J. Ludwig) Director
Date:	(J. Alan Morgan) Director
Date: March 10, 1998	Richard L. Pletcher (Richard L. Pletcher) Director
Date:	(Joseph P. Prout) Director
Date: March 10, 1998	Terry L. Tucker (Terry L. Tucker) Director
Date: March 10, 1998	G.L. White (G.L. White) Director

EXHIBIT INDEX

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

Exhibit 13 - 1997 Report to Shareholders with Report of Independent Auditors.

Exhibit 21 - Subsidiaries

Exhibit 27 - Financial Data Schedule

EXHIBIT 13

1997 Report to Shareholders with Report of Independent Auditors.

EXHIBIT 21

SUBSIDIARIES. The Registrant has two wholly-owned subsidiaries, Lake City Bank, Warsaw, Indiana, a banking corporation organized under the laws of the State of Indiana, and Lakeland Capital Trust, a statutory business trust formed under Delaware law.

Annual Meeting

The annual meeting of the shareholders of Lakeland Financial Corporation will be held at noon, April 14, 1998, at the Shrine Building, Kosciusko County Fair Grounds, Warsaw, Indiana. As of December 31, 1997, there were 1,136 shareholders.

Special Notice: Form 10-K Available

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

Registrar and Transfer Agent

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

Stock and Dividend Information

The following companies are market makers in Lakeland Financial Corporation stock and have reported the 1996 bid-ask prices for the Company's stock as set forth in the Selected Quarterly Data. The 1997 bid-ask prices as set forth in the Selected Quarterly Data were obtained from the Bloomberg Business News service.

Roney & Company, P.O. Box 130, Elkhart, Indiana, 46515
McDonald and Company Securities, Inc., 214 South Main Street, Elkhart, Indiana, 46516
Stifel, Nicolaus & Company, Inc., 500 North Broadway, St. Louis, Missouri, 63102

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

President's Letter

I am happy to report that your Corporation experienced a terrific year in 1997. These results confirm that our basic business philosophy of providing local, hometown banking services to north central Indiana communities is working well. This continued market acceptance produced record net income, asset growth, and stock price performance.

In 1997, the financial services industry continued to evolve rapidly with many mergers among large banks looking for a national presence. There are now several national banking companies striving to be the "WalMart" of financial services, where price and centralized decision-making are paramount. While these types of banks have their place, we view our Corporation as a niche bank; one that feels convenience, personal service, flexibility, and local knowledge are important factors in serving customers and generating above average returns to investors. As a result of this merger activity, many communities are deemed too small or not profitable enough to be served by large banks. Consequently, offices are being offered for sale, and we had the opportunity to purchase some of these in northern Indiana. We evaluated many locations, and ultimately purchased several offices of First Chicago/NBD and KeyCorp. The acquisitions opened new markets to the Corporation in Huntington, Logansport and Medaryville and strengthened our market position in Ligonier, Kendallville, Columbia City and Rochester. In February 1998, we will complete the purchase of National City Bank offices in Peru and Greentown. These are all great communities that we feel will be receptive to our hometown style of banking.

To accomplish the purchases, we issued $20 million of Trust Preferred Securities through a subsidiary company, Lakeland Capital Trust. These securities are unique to the banking industry. They have the characteristics of long-term debt, but under Federal banking law, provide the regulatory capital the Corporation needs to grow. From your perspective as a common stockholder, this funding allowed us to grow the Bank without diluting your ownership share in the Corporation. This preferred stock issue was extremely well received in the market.

This acquisition activity required substantial resources and time commitment. We continued to compete successfully for loans and deposits in communities that we have served for many years. The Corporation's asset growth was about 21 percent in 1997. Branch purchases comprised about 14 percent of this growth, but we are pleased with asset growth of about 7 percent in existing markets. Loan growth continued strong in 1997, with loans increasing $76 million, or 20 percent. While we did purchase about $24 million of loans from KeyCorp, our loan generation during the year was principally the result of hard work by our officers throughout existing markets. We were also pleased with deposit growth of about $116 million, or 23 percent in 1997.

Successful growth must be accompanied by improved profitability, and in 1997 the Corporation achieved record earnings for the tenth consecutive year. Net income totaled $7,540,000, or 17 percent more than in 1996. Interest margin pressures are being felt throughout the industry, and we are no exception. The spread, or difference, between what we earn on our assets, and the cost of the funds we use to support these assets, continued to decline during the year. We expect that this trend will continue in 1998, which will continue to challenge the Corporation to pursue profitable geographic expansion, generate quality loans, increase fee income, control operating expense and maintain good asset quality. We had strong growth in noninterest income, which increased 29 percent over 1996, totaling $7.5 million for 1997. All major components of noninterest income, including trust fees, deposit fees, other service fees, and the gains on the sale of real estate mortgages, achieved record levels in 1997. Noninterest expense, or operating expenses, increased about 14 percent in 1997 to $20.4 million. The largest component of this increase was the hiring and training of the high quality people needed to manage our large office network. At year-end 1997, the Corporation employed 438 people, a 19 percent increase over 1996. Asset quality remained strong in 1997, which allowed the expense for the provision for loan losses to remain at a relatively low level of $269,000. We remain optimistic about the economic vitality of the markets we serve, and the positive effect this has on asset quality.

Financial performance is ultimately reflected in the return on stockholder equity and in market capitalization. The Corporation did very well in 1997 with a return on beginning stockholder equity of 18.1 percent. This type of return performance ranks comfortably in the top 25 percent of all banks in America. Financial performance is also reflected in the stock price, which closed the year at about $48.25 per share, an increase from $30.00 at year-end 1996. The dividends declared in 1997 totaled $.60 per share, representing a 30 percent increase over the dividends declared in 1996. The combination of stock price appreciation and an increased dividend resulted in a total return on your investment of 63 percent in 1997. The stock market now values the Corporation at about $140 million. During the year, we listed the common stock on the NASDAQ stock exchange, trading under the symbol LKFN. Price and corporation information is now readily available through NASDAQ, and from any of our three market makers. We also listed the trust preferred stock on NASDAQ, trading under the symbol LKFNP.

Technology initiatives continued in 1997. As our offices expand into fourteen counties, we have designed and implemented a communication network that will provide the resources the Corporation needs to grow and operate effectively. This project will be complete in late 1998. At the close of 1997, we began implementation of new teller and customer sales software and hardware. This investment will provide a state-of-the-art platform to deliver our services into the next century. This project will also be completed in late 1998. We are developing a data warehouse system that will allow us to know our customers even better. Banking has become an information industry, and this warehouse of information is vital to successful management in the future. Development continues on Internet banking, as we design the electronic products that customers want, without sacrificing the security of customer information. Technology evaluation and implementation have become a very big part of banking today, and these current projects are investments in proven technology that are vital to our long-term success.

Customer interest in our trust services is strong for estate and financial planning, employee retirement plans, personal trust administration, living trusts, corporate trust, and individual asset management. Trust assets under management and income increased 41 percent and 35 percent in 1997, respectively.

Our trust and investment professionals make the difference by providing quality, responsive personal service, and by building long-term relationships with customers and their families. We sponsored a Valentine Party for our retired friends, a Leading Ladies Luncheon, several professional receptions in Elkhart, and an Estate and Financial Planning Seminar in Shipshewana. The Leading Ladies is a highly successful program designed and tailored to provide an innovative financial program for the bank's female customers.

Brokerage services are used by customers who want to buy or sell stocks, bonds and other non-insured investments. Income from this area was up significantly in 1997.

Commercial loan outstandings grew 19 percent to $273 million from $230 million at year-end 1996. Delinquencies and charge-offs were below industry averages. These successes were possible largely through knowledgeable, professional, service oriented commercial officers who care about and understand their customers needs. We also hosted several well-attended seminars to assist and provide specialized education for our business and agri-business customers.

Installment loans increased $17.8 million, up 25 percent over 1996. The Corporation entered into a captive reinsurance arrangement to take advantage of underwriting gains on the sales of credit life and disability insurance on these loans.

We closed $44 million in mortgages, an increase of 10 percent over 1996. Fee income increased through strong gains in mortgage sales and brokerage fees on FHA/VA and "Sub-Prime" mortgage loans. The Corporation was recognized by the Federal Home Loan Bank for assisting communities in affordable housing.

During the year a fourth Elkhart location was opened on the northwest side. The Granger office opened in June and Mishawaka in November. The Plymouth office opening is scheduled for early 1998. The former Kline's building in downtown Warsaw is currently being remodeled into office space for needed expansion. Trust, Investments, Brokerage and other staff departments will move into that building this summer.

Terry M. White was promoted to Executive Vice President, with principal responsibilities in the finance and operations areas. He has been with the Corporation for five years and has eighteen years of banking experience.

As a Corporation and through the individual efforts of our people, we are associated with a wide range of civic and charitable organizations, offering not only strong financial support but also thousands of hours of volunteer service. From economic development and housing, to education and arts, our people give of their energy and expertise to serve on boards and commissions that further strengthen and enhance the communities we serve.

As we celebrate our 125th year of service, your Corporation grows in recognition in its position as a locally owned and managed independent community bank. We are uniquely positioned for future growth, continued profitability, and success. We welcome the challenges and opportunities that lie ahead.

/s/ R. Douglas Grant
R. Douglas Grant
President

Lakeland Financial Corporation and Lake City Bank Board of Directors

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

LAKELAND FINANCIAL CORPORATION OFFICERS

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

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

	1997	1996	1995	1994	1993
Interest income	$ 52,699	$ 45,941	$ 41,944	$ 33,556	$ 27,463
Interest expense	28,060	23,737	21,642	14,887	12,022
Net interest income	24,639	22,204	20,302	18,669	15,441
Provision for loan losses	269	120	120	795	79
Net interest income after provision for loan losses	24,370	22,084	20,182	17,874	14,651
Other noninterest income	6,978	5,396	4,297	4,198	2,957
Net gains on sale of real estate mortgages held-for-sale	545	412	159	177	676
Net securities gains (losses)	(19)	(9)	315	(7)	175
Noninterest expense	(20,414)	(17,935)	(16,244)	(14,092)	(12,378)
Income before income tax expense and cumulative effect of change in accounting principle	11,460	9,948	8,709	8,150	6,081
Income tax expense	3,920	3,504	3,064	3,024	2,171
Income before cumulative effect of change in accounting principle	7,540	6,444	5,645	5,126	3,910
Cumulative effect of adopting SFAS No. 109	0	0	0	0	325
Net income	$ 7,540	$ 6,444	$ 5,645	$ 5,126	$ 4,235
Average shares outstanding*	2,902,530	2,896,992	2,876,992	2,876,992	2,876,992
Per average common share outstanding:*					
Income before cumulative effect of change in accounting principle	$ 2.60	$ 2.22	$ 1.96	$ 1.78	$ 1.36
Basic earnings	$ 2.60	$ 2.22	$ 1.96	$ 1.78	$ 1.47
Cash dividends declared	$ 0.60	$ 0.46	$ 0.37	$ 0.30	$ 0.25
Balances at December 31:					
Total assets	$ 796,478	$ 656,551	$ 568,579	$ 496,963	$ 449,954
Total deposits	$ 612,992	$ 496,553	$ 431,934	$ 396,740	$ 370,032
Long-term borrowings	$ 25,367	$ 23,531	$ 17,432	$ 17,432	$ 9,300
Guaranteed preferred beneficial interests in Company's subordinated debentures	$ 19,211	$ 0	$ 0	$ 0	$ 0
Total stockholders' equity	$ 48,256	$ 42,043	$ 36,754	$ 29,889	$ 27,912

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

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

1997	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 13,775	$ 13,344	$ 13,180	$ 12,400
Interest expense	7,574	7,240	6,832	6,414
Net interest income	6,201	6,104	6,348	5,986
Provision for loan losses	89	60	60	60
Noninterest income	2,003	2,016	1,886	1,599
Noninterest expense	5,777	5,156	4,825	4,656
Income tax expense	695	1,034	1,149	1,042
Net income	$ 1,643	$ 1,870	$ 2,200	$ 1,827
Basic earnings per common share	$ 0.57	$ 0.64	$ 0.76	$ 0.63
Stock and Dividend Information				
Trading range (per share) *				
Bid	$ 46.00	$ 35.50	$ 33.75	$ 30.75
Ask	$ 49.00	$ 49.00	$ 35.75	$ 35.00
Dividends declared (per share)	$ 0.15	$ 0.15	$ 0.15	$ 0.15

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

* The trading range for the fourth quarter of 1997 is the high and low as reported by Bloomberg Business News. The fourth quarter of 1997 is the first full quarter the Company's common stock was traded on Nasdaq.

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

Consolidated Balance Sheets (in thousands)

December 31	1997	1996
ASSETS		
Cash and due from banks	$ 45,317	$ 41,190
Short-term investments	4,445	3,689
Total cash and cash equivalents	49,762	44,879
Securities available-for-sale (carried at fair value)	84,599	81,842
Securities held-to-maturity (fair value of $166,079 at 1997 and $126,373 at 1996)	163,559	125,274
Real estate mortgages held-for-sale	1,516	895
Total loans	458,634	382,265
Less allowance for loan losses	5,308	5,306
Net loans	453,326	376,959
Land, premises and equipment, net	23,108	16,014
Accrued income receivable	4,915	4,254
Intangible assets	9,649	0
Other assets	6,044	6,434
Total assets	$ 796,478	$ 656,551
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	$ 92,467	$ 77,664
Interest bearing deposits	520,525	418,889
Total deposits	612,992	496,553
Short-term borrowings		
Federal funds purchased	14,650	0
Securities sold under agreements to repurchase	65,467	85,611
U.S. Treasury demand notes	4,000	2,769
Total short-term borrowings	84,117	88,380
Accrued expenses payable	5,040	5,033
Other liabilities	1,495	1,011
Long-term borrowings	25,367	23,531
Guaranteed preferred beneficial interests in Company's subordinated debentures	19,211	0
Total liabilities	748,222	614,508
Commitments, off-balance sheet risks and contingencies		
STOCKHOLDERS' EQUITY		
Common stock: $.50 stated value, 10,000,000 shares authorized, 2,906,992 shares issued, 2,901,616 outstanding as of December 31, 1997; 2,896,992 shares issued and outstanding as of December 31, 1996	1,453	1,448
Additional paid-in capital	8,537	8,232
Retained earnings	37,766	31,967
Unrealized net gain on securities available-for-sale	685	396
Treasury stock, at cost	(185)	0
Total stockholders' equity	48,256	42,043
Total liabilities and stockholders' equity	$ 796,478	$ 656,551

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

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

Year Ended December 31	1997	1996	1995
NET INTEREST INCOME			
Interest and fees on loans			
Taxable	$ 38,265	$ 32,724	$ 29,859
Tax-exempt	228	246	257
Interest and dividends on securities			
Taxable	12,472	11,348	10,588
Tax-exempt	1,431	1,378	1,038
Interest on short-term investments	303	245	202
Total interest income	52,699	45,941	41,944
Interest on deposits	21,183	18,411	16,847
Interest on borrowings			
Short-term	4,921	4,213	3,803
Long-term	1,956	1,113	992
Total interest expense	28,060	23,737	21,642
NET INTEREST INCOME	24,639	22,204	20,302
Provision for loan losses	269	120	120
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,370	22,084	20,182
NONINTEREST INCOME			
Trust income	1,188	881	709
Service charges on deposits	3,369	2,809	2,262
Other income	2,421	1,706	1,326
Net gains on the sale of real estate mortgages held-for-sale	545	412	159
Net securities gains (losses)	(19)	(9)	315
Total noninterest income	7,504	5,799	4,771
NONINTEREST EXPENSE			
Salaries and employee benefits	11,317	9,570	8,521
Net occupancy expense	1,397	1,339	1,229
Equipment costs	1,747	1,616	1,375
Other expense	5,953	5,410	5,119
Total noninterest expense	20,414	17,935	16,244
INCOME BEFORE INCOME TAX EXPENSE	11,460	9,948	8,709
Income tax expense	3,920	3,504	3,064
NET INCOME	$ 7,540	$ 6,444	$ 5,645
AVERAGE COMMON SHARES OUTSTANDING	2,902,530	2,896,992	2,876,992
BASIC EARNINGS PER COMMON SHARE	$ 2.60	$ 2.22	$ 1.96

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

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

	Common Stock Outstanding Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Unrealized Net Gain (Loss) on Securities Available-for-Sale	Treasury Stock	Total Stockholders' Equity
Balances, January 1, 1995	1,438,496	$ 1,438	$ 7,827	$ 22,279	$ (1,655)	$ 0	$ 29,889
Net income for 1995				5,645			5,645
Net change in unrealized gain (loss) on securities available-for-sale					2,286		2,286
Cash dividend declared ($.37 per share)				(1,066)			(1,066)
Balances, December 31, 1995	1,438,496	1,438	7,827	26,858	631	0	36,754
Net income for 1996				6,444			6,444
Net change in unrealized gain (loss) on securities available-for-sale					(235)		(235)
Issued 10,000 shares	10,000	10	405				415
Shares issued in 2-for-1 stock split	1,448,496						
Cash dividend declared ($.46 per share)				(1,335)			(1,335)
Balances, December 31, 1996	2,896,992	1,448	8,232	31,967	396	0	42,043
Net income for 1997				7,540			7,540
Net change in unrealized gain (loss) on securities available-for-sale					289		289
Issued 10,000 shares	10,000	5	305				310
Treasury stock acquired	(5,376)					(185)	(185)
Cash dividend declared ($.60 per share)				(1,741)			(1,741)
Balances, December 31, 1997	2,901,616	$ 1,453	$ 8,537	$ 37,766	$ 685	$ (185)	$ 48,256

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

Consolidated Statements of Cash Flows (in thousands)

Year Ended December 31	1997	1996	1995
Cash flows from operating activities			
Net income	$ 7,540	$ 6,444	$ 5,645
Adjustments to reconcile net income to net cash from operating activities			
Depreciation	1,393	1,277	1,209
Provision for loan losses	269	120	120
Write down of other real estate owned	19	20	0
Amortization of intangible assets	26	0	0
Loans originated for sale	(27,426)	(27,599)	(29,679)
Net (gain) loss on sale of loans	(545)	(412)	(159)
Proceeds from sale of loans	27,350	27,261	29,868
Net (gain) loss on sale of premises and equipment	11	3	0
Net (gain) loss on sale of securities available-for-sale	0	0	(331)
Net (gain) loss on calls of securities held-to-maturity	19	9	16
Net securities amortization	23	256	180
Increase (decrease) in taxes payable	(217)	237	(822)
(Increase) decrease in income receivable	(661)	(251)	(539)
Increase (decrease) in accrued expenses payable	224	360	1,227
(Increase) decrease in other assets	459	(698)	411
Increase (decrease) in other liabilities	427	164	888
Total adjustments	1,371	747	2,389
Net cash from operating activities	8,911	7,191	8,034
Cash flows from investing activities			
Proceeds from sale of securities available-for-sale	0	0	7,563
Proceeds from maturities and calls of securities held-to-maturity	14,557	8,784	6,268
Proceeds from maturities and calls of securities available-for-sale	26,100	14,130	5,022
Purchases of securities available-for-sale	(28,315)	(14,429)	(20,014)
Purchases of securities held-to-maturity	(52,946)	(20,247)	(22,900)
Net (increase) decrease in total loans	(53,286)	(54,934)	(39,174)
Purchases of land, premises and equipment	(5,464)	(3,558)	(3,650)
Net proceeds (payments) from acquisitions	58,889	0	(1,380)
Net cash from investing activities	(40,465)	(70,254)	(68,265)
Cash flows from financing activities			
Net increase in total deposits	21,257	64,619	35,194
Proceeds from short-term borrowings	889,826	849,944	522,102
Payments on short-term borrowings	(894,089)	(838,695)	(493,294)
Proceeds from long-term borrowings	10,000	14,118	0
Payments on long-term borrowings	(8,163)	(8,019)	0
Dividends paid	(1,741)	(1,335)	(1,023)
Proceeds from sale of common stock	310	415	0
Net proceeds from issuance of guaranteed preferred beneficial interests in Company's subordinated debentures	19,222	0	0
Purchase of treasury stock	(185)	0	0
Net cash from financing activities	36,437	81,047	62,979
Net increase (decrease) in cash and cash equivalents	4,883	17,984	2,748
Cash and cash equivalents at beginning of the year	44,879	26,895	24,147
Cash and cash equivalents at end of year	$ 49,762	$ 44,879	$ 26,895
Cash paid during the year for:			
Interest	$ 27,921	$ 23,239	$ 21,052
Income taxes	$ 3,918	$ 3,420	$ 3,116
Securities transferred from held-to-maturity to available-for-sale	$ 0	$ 0	$ 12,918
Loans transferred to other real estate	$ 284	$ 334	$ 0

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

Notes to Consolidated Financial Statements

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:

Lakeland Financial Corporation (the Company) is a bank holding company as defined in the Bank Holding Company Act of 1956. The Company owns all of the outstanding stock of Lake City Bank (the Bank), a full service commercial bank organized under Indiana law, and Lakeland Capital Trust (Lakeland Trust), a statutory business trust formed under Delaware law. The Company conducts no business except that incident to its ownership of the Bank and Lakeland Trust. The Bank is headquartered in Warsaw, Indiana, and has 39 branch offices in twelve counties in northern Indiana.

Use of Estimates:

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

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

Principles of Consolidation:

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

Securities:

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

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

Real Estate Mortgages Held-for-Sale:

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

Mortgage Servicing Rights:

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

Impairment of mortgage servicing rights is assessed based upon the fair value of those rights, using groupings of the underlying loans as to interest rates and then, secondarily, as to geographic and prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance. Estimates of fair value include assumptions about prepayment, default and interest rates, and other factors which are subject to change over time.

Loans and Loan Income:

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

Concentration of Credit:

The Bank is a full service bank with headquarters in Warsaw, Indiana with offices in 29 cities and towns located within twelve counties in northern Indiana. The Bank makes commercial, industrial, agri-business and agricultural real estate mortgage, real estate construction mortgage, residential real estate mortgage and consumer loans throughout these cities and counties. The loan portfolios are well diversified and are secured to the extent deemed appropriate by management. Mortgage-backed securities are collateralized by mortgages located throughout the United States. Substantially all mortgage-backed securities are insured directly or indirectly by the U. S. Government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses:

The allowance is judgmentally determined by management and is maintained at a level considered adequate to cover losses currently anticipated based on past loss experience, general national and local economic conditions, information about specific borrower situations, including their financial position and collateral values, and other factors and estimates which may change over time. While management may periodically allocate portions of the allowance for specific problem loan situations, the whole allowance is available for any loan charge-off that might occur. A loan is charged-off as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur. Increases to the allowance are recorded by a charge to expense and are based upon subjective judgments.

Loans considered to be impaired are reduced to the present value of future cash flows or to the fair value of collateral, by allocating a portion of the allowance for loan losses to such loans. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as provision for loan losses. As part of the loan review process, management reviews all loans classified as 'special mention' or below for impairment, as well as other loans that might warrant consideration. Smaller-balance homogeneous loans are evaluated for impairment in total. Such loans include residential first mortgage loans secured by one-to-four family residences, residential construction loans, automobile, home equity and second mortgage loans.

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

Land, Premises and Equipment:

Land, premises, and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed on both straight-line and declining-balance methods based on estimated useful lives of the assets. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

Other Real Estate Owned:

Other real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value at the date of acquisition. Any reduction to fair value from the carrying value of the related loan at the time of acquisition is accounted for as a loan loss and charged against the allowance for loan losses. After acquisition, a valuation allowance is recorded through a charge to income for the amount of estimated selling costs. Valuations are periodically performed by management, and valuation allowances are adjusted through a charge to income for changes in fair value or estimated selling costs. Other real estate owned, other than Company premises, amounted to $426,000, net of a $224,000 valuation allowance and $917,000, net of a $285,000 valuation allowance at December 31, 1997 and 1996, respectively, and is included in other assets in the consolidated balance sheets.

Intangible Assets:

Intangible assets consist of goodwill and core deposit intangibles. Goodwill is amortized on a straight line basis over 15 years. Core deposit intangibles are amortized using an accelerated method over 12 years. Intangible assets are reviewed for possible impairment when events or changed circumstances may affect the underlying basis of the assets.

Income Taxes:

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

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.

Dividend Restriction:

The Bank is subject to banking regulations which require the maintenance of certain capital levels and which may limit the amount of dividends which may be paid to the Company. At December 31, 1997, the Bank could distribute approximately $10,461,000 of retained earnings to the Company and continue to meet the minimum capital ratios required to be well capitalized under prompt corrective action regulations.

Fair Values of Financial Instruments:

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

Earnings Per Common Share:

Basic and diluted earnings per common share are computed under a new accounting standard effective in the quarter ended December 31, 1997. Adoption of the standard did not change the earnings per share amounts previously reported. Basic earnings per share is based upon net income divided by the weighted average number of shares outstanding during the period. At December 31, 1997, there were no potential common shares.
Basic and diluted earnings per common share are restated to reflect any stock dividends or splits.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension Plan:

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

Cash Flow Reporting:

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

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 - PENDING ACCOUNTING CHANGES

SFAS Nos. 130 and 131 were issued by the Financial Accounting Standards Board during 1997. SFAS No. 130, Reporting Comprehensive Income, establishes standards for reporting and displaying comprehensive income and its components in general-purpose financial statements. It is effective for fiscal years beginning after December 15, 1997. Adoption of this SFAS could effect how the results of operations are displayed in the consolidated financial statements.

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires the presentation of disaggregated information about segments of a business and is effective for financial statements for periods beginning after December 15, 1997. The effect on the consolidated financial statements has not yet been determined.

NOTE 3 - SECURITIES

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

(in thousands)	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
Securities available-for-sale at December 31, 1997				
U.S. Treasury securities	$ 28,833	$ 468	$ (15)	$ 29,286
U.S. Government agencies and corporations	100	0	0	100
Mortgage-backed securities	52,746	734	(171)	53,309
State and municipal securities	1,787	117	0	1,904
Total securities available-for-sale at December 31, 1997	$ 83,466	$ 1,319	$ (186)	$ 84,599
Securities held-to-maturity at December 31, 1997				
U.S. Treasury securities	$ 21,170	$ 344	$ (13)	$ 21,501
U.S. Government agencies and corporations	2,176	70	0	2,246
Mortgage-backed securities	116,788	713	(316)	117,185
State and municipal securities	22,418	1,628	(2)	24,044
Other debt securities	1,007	96	0	1,103
Total securities held-to-maturity at December 31, 1997	$ 163,559	$ 2,851	$ (331)	$ 166,079
Securities available-for-sale at December 31, 1996				
U.S. Treasury securities	$ 31,604	$ 261	$ (61)	$ 31,804
U.S. Government agencies and corporations	500	7	0	507
Mortgage-backed securities	46,002	502	(172)	46,332
State and municipal securities	2,081	86	0	2,167
Other debt securities	1,000	32	0	1,032
Total securities available-for-sale at December 31, 1996	$ 81,187	$ 888	$ (233)	$ 81,842
Securities held-to-maturity at December 31, 1996				
U.S. Treasury securities	$ 17,020	$ 113	$ (56)	$ 17,077
U.S. Government agencies and corporations	2,262	101	(1)	2,362
Mortgage-backed securities	83,811	545	(637)	83,719
State and municipal securities	21,172	946	(23)	22,095
Other debt securities	1,009	111	0	1,120
Total securities held-to-maturity at December 31, 1996	$ 125,274	$ 1,816	$ (717)	$ 126,373

NOTE 3 - SECURITIES (continued)

Information regarding the amortized cost and fair value of debt securities by maturity as of December 31, 1997, is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without prepayment penalty.

	Available-for-Sale December 31, 1997		Held-to-Maturity December 31, 1997	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$ 5,807	$ 5,802	$ 5,110	$ 5,100
Due after one year through five years	23,424	23,892	20,102	20,615
Due after five years through ten years	1,489	1,596	1,737	1,838
Due after ten years	0	0	19,822	21,341
	30,720	31,290	46,771	48,894
Mortgage-backed securities	52,746	53,309	116,788	117,185
Total debt securities	$ 83,466	$ 84,599	$ 163,559	$ 166,079

Security proceeds, gross gains and gross losses for 1997, 1996 and 1995 were as follows:

	1997	1996	1995
	(in thousands)		
Sales and calls of securities available-for-sale			
Proceeds	$ 100	$ 650	$ 7,563
Gross gains	0	0	348
Gross losses	0	0	17
Calls of securities held-to-maturity			
Proceeds	$ 638	$ 802	$ 414
Gross gains	0	0	0
Gross losses	19	9	16

Securities with carrying values of $122,482,000 and $121,109,000 were pledged as of December 31, 1997 and 1996, respectively, as collateral for deposits of public funds, securities sold under agreements to repurchase and for other purposes as permitted or required by law.

NOTE 4 - TOTAL LOANS

Total loans outstanding as of December 31, 1997 and 1996, consist of the following:

	1997	1996
	(in thousands)	
Commercial and industrial loans	$ 237,132	$ 202,532
Agri-business and agricultural loans	35,820	27,072
Real estate mortgage loans	62,279	59,302
Real estate construction loans	3,089	1,647
Installment loans and credit cards	120,314	91,712
Total loans	$ 458,634	$ 382,265

Loans aggregating $60,000 or more with executive officers and directors (including their associates) amounted to $18,378,000 and $12,789,000 as of December 31, 1997 and 1996, respectively. During 1997, new loans or advances were $34,077,000, and loan repayments were $28,488,000.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were $68,028,000 and $51,802,000 at December 31, 1997 and 1996, respectively. Income earned for loan servicing was $98,000, $96,000 and $82,000 for 1997, 1996 and 1995, respectively. Information on mortgage servicing rights follows:

	1997	1996
	(in thousands)	
Beginning of year	$ 205	$ 0
Originations	268	220
Amortization	(48)	(15)
End of year	$ 425	$ 205

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The following is an analysis of the allowance for loan losses for 1997, 1996 and 1995:

	1997	1996	1995
		(in thousands)	
Balance, January 1	$ 5,306	$ 5,472	$ 4,866
Allowance related to acquisitions	0	0	746
Provision for loan losses	269	120	120
Loans charged-off	359	368	355
Recoveries	92	82	95
Net loans charged-off	267	286	260
Balance, December 31	$ 5,308	$ 5,306	$ 5,472

Nonaccrual loans at December 31, 1997, 1996 and 1995, totaled $1,058,000, $384,000 and $532,000, respectively. Interest lost on nonaccrual loans was approximately $44,000, $35,000 and $29,000 for 1997, 1996 and 1995, respectively. Loans renegotiated as troubled debt restructuring totaled $1,377,000 and $1,284,000 as of December 31, 1997 and 1996, respectively. Interest income of $92,000, $85,000 and $96,000 was recognized in 1997, 1996 and 1995. Had these loans been performing under the original contract terms, an additional $50,000 would have been reflected in interest income during 1997, $44,000 in 1996 and $53,000 in 1995. The Company is not committed to lend additional funds to debtors whose loans have been modified. During 1997, 1996 and 1995 the Company had no loans meeting the definition of impaired.

NOTE 6 - LAND, PREMISES AND EQUIPMENT, NET

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

	1997	1996
	(in thousands)	
Land	$ 5,953	$ 4,344
Premises	15,915	12,356
Equipment	11,227	8,001
Total cost	33,095	24,701
Less accumulated depreciation	9,987	8,687
Land, premises and equipment, net	$ 23,108	$ 16,014

NOTE 7 - DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of $100,000, was approximately $108,497,000 and $97,943,000 at December 31, 1997 and 1996, respectively.

At December 31, 1997, the scheduled maturities of time deposits are as follows:

	Amount
	(in thousands)
Maturing in 1998	$ 310,904
Maturing in 1999	51,652
Maturing in 2000	18,583
Maturing in 2001	6,181
Maturing in 2002	4,783
Thereafter	1,517
Total time deposits	$ 393,620

Deposits of executive officers and directors (including their associates) totaled $7,852,000 and $3,652,000 at December 31, 1997 and 1996, respectively.

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase (repo accounts) represent collateralized borrowings with customers located primarily within the Company's trade area. Repo accounts are not covered by federal deposit insurance and are secured by securities owned. Information on these liabilities and the related collateral for 1997 and 1996 is as follows:

	1997	1996
	(in thousands)	
Average balance during the year	$ 83,732	$ 73,728
Average interest rate during the year	5.45%	5.33%
Maximum month-end balance during the year	$ 98,917	$ 89,433
Securities underlying the agreements at year-end		
Amortized cost	$ 66,183	$ 87,817
Fair value	$ 67,258	$ 88,004

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (continued)

			Collateral Value			
			U.S. Treasury Securities		Mortgage-backed Securities	
Term	Repurchase Liability	Weighted Average Interest Rate	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)		(in thousands)			
On demand	$ 39,941	4.15%	$ 0	$ 0	$ 39,859	$ 40,261
1 to 30 days	2,570	5.80	1,320	1,354	1,306	1,337
31 to 90 days	3,943	5.93	1,158	1,183	2,947	3,002
Over 90 days	19,013	6.15	15,975	16,415	3,618	3,706
Total	$ 65,467	4.90%	$ 18,453	$ 18,952	$ 47,730	$ 48,306

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, 1997, there were no material amounts of securities at risk with any one customer. The Company maintains control of these securities through the use of third-party safekeeping arrangements.

NOTE 9 - LONG -TERM BORROWINGS

Long-term borrowings at December 31 consisted of:

	1997	1996
	(in thousands)	
Federal Home Loan Bank of Indianapolis Notes, 5.59%, Due January 14, 1997	$ 0	$ 8,132
Federal Home Loan Bank of Indianapolis Notes, LIBOR 5.99%, Due April 27, 1998	10,000	0
Federal Home Loan Bank of Indianapolis Notes, 5.92%, Due December 7, 1998	4,000	4,000
Federal Home Loan Bank of Indianapolis Notes, 5.50%, Due December 28, 1998	10,000	10,000
Federal Home Loan Bank of Indianapolis Notes, 6.15%, Due June 24, 2003	1,300	1,300
Capital Leases	67	99
Total	$ 25,367	$ 23,531

All notes require monthly interest payments and are secured by residential real estate loans with a carrying value of $45,458,000 at December 31, 1997. The capital leases had original terms of approximately three years and require monthly payments.

NOTE 10 - GUARANTEED PREFERRED BENEFICIAL INTERESTS

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

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

NOTE 11 - EMPLOYEE BENEFIT PLANS

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

	1997	1996

Actuarial present value of benefit obligations:	(in thousands)	
Accumulated benefit obligation, including vested benefits of $1,415,000 for 1997 and $1,107,000 for 1996	$ 1,533	$ 1,214
Projected benefit obligation for service rendered to date	$ 1,949	$ 1,544
Plan assets at fair value (primarily money market funds and equity and fixed income investments)	(1,911)	(1,401)
Unrecognized gains (losses)	(1)	(27)
Unrecognized prior service cost	27	28
Accrued balance sheet pension liability	$ 64	$ 144

NOTE 11 - EMPLOYEE BENEFIT PLANS (continued) Net pension expense includes the following:

	1997	1996	1995
	(in thousands)		
Service cost for benefits earned	$ 178	$ 162	$ 116
Interest cost	120	105	77
Actual return on plan assets	(306)	(90)	(97)
Net amortization and deferrals	197	(9)	19
Net pension expense	$ 189	$ 168	$ 115

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

	1997	1996	1995
Weighted average discount rate	7.25%	7.75%	7.50%
Rate of increase in future compensation	4.50%	4.50%	4.50%
Expected long-term rate of return	8.00%	8.00%	8.00%

The Company maintains a 401(k) profit sharing plan for all employees meeting age and service requirements. The Company contributions are based upon the rate of return on January 1 stockholders' equity. The expense recognized was $393,000, $532,000 and $455,000 in 1997, 1996 and 1995, respectively.

The Board of Directors of the Company has established a qualified stock incentive plan subject to the approval of the shareholders at the 1998 annual meeting. Under the terms of this plan, the number of shares of common stock of the Company that may be granted may not exceed 300,000 shares.

NOTE 12 - OTHER EXPENSE

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

	1997	1996	1995
	(in thousands)		
Data processing fees and supplies	$ 1,151	$ 1,098	$ 913
Corporate and business development	1,034	932	825
Office supplies	633	641	632
Telephone and postage	833	729	616
Regulatory fees and FDIC insurance	122	57	616
Miscellaneous	2,180	1,953	1,517
Total other expense	$ 5,953	$ 5,410	$ 5,119

NOTE 13 - INCOME TAXES

Income tax expense consists of the following:

	1997	1996	1995
	(in thousands)		
Current federal income tax expense	$ 2,881	$ 2,503	$ 2,297
Deferred federal income tax expense	100	107	5
Current state income tax expense	906	808	734
Deferred state income tax expense	33	86	28
Total income tax expense	$ 3,920	$ 3,504	$ 3,064

Income tax expense (credit) included $(8,000), $(3,000) and $114,000 applicable to security transactions for 1997, 1996 and 1995, respectively. The differences between financial statement tax expense and amounts computed by applying the statutory federal income tax rate of 34% for all three years to income before income taxes are as follows:

	1997	1996	1995
	(in thousands)		
Income taxes at statutory federal rate	$ 3,896	$ 3,382	$ 2,961
Increase (decrease) in taxes resulting from:			
Tax exempt income	(554)	(540)	(433)
Nondeductible expense	135	140	119
State income tax, net of federal tax effect	661	590	503
Net operating loss, Gateway	(29)	(29)	(29)
Tax credits	(23)	(22)	(30)
Other	(166)	(17)	(27)
Total income tax expense	$ 3,920	$ 3,504	$ 3,064

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NOTE 13 - INCOME TAXES (continued)

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

	1997		1996	
	Federal	State	Federal	State
	(in thousands)			
Deferred tax assets				
Bad debts	$ 1,528	$ 430	$ 1,383	$ 430
ORE	97	24	98	24
Pension and deferred compensation liability	440	110	315	79
Net operating loss carryforward	346	0	375	0
Other	75	20	158	24
	2,486	584	2,329	557
Deferred tax liabilities				
Accretion	148	37	92	23
Depreciation	284	71	258	65
Mortgage servicing rights	145	36	70	18
State taxes	128	0	139	0
Leases	169	42	107	27
Deferred loan fees	82	20	17	5
Other	5	1	35	9
	961	207	718	147
Valuation allowance	172	0	158	0
Net deferred tax asset	$ 1,353	$ 377	$ 1,453	$ 410

In addition to the net deferred tax assets included above, income taxes (credits) allocated to the unrealized net gain (loss) account included in equity were $450,000 and $259,000 for 1997 and 1996, respectively.

NOTE 14 - ACQUISITIONS

On November 3, 1997, the Company acquired the Huntington, Indiana office of 1st Chicago/NBD. On December 8, 1997, the Company acquired Indiana offices in Columbia City, Kendallville, Ligonier, Logansport, Medaryville and Rochester from KeyCorp. Subsequent to the acquisitions, the Company closed the Rochester office acquired from KeyCorp and the Company's previously existing office in Columbia City. These acquisitions were accounted for using the purchase method of accounting. The results of the operations of the acquired offices are included in the income statement of the Company beginning as of the respective purchase dates.

The branch acquisitions were not considered to be acquisitions of a business since, among other things, approximately 62% of the $95,235,000 in assets received were in the form of cash and only a relatively small portion of the assets were in the form of loans. The future earnings from the assets acquired will be primarily dependent on the effective use of the cash and, thus, historical operating results of the branches acquired would not be indicative of future results. Accordingly, only summary information regarding the effect of the acquisitions on the balance sheet is presented below:

Assets	(in thousands)
Cash and due from banks	$ 58,889
Loans	23,591
Land, premises and equipment	3,076
Intangible assets	9,675
Other assets	4
Liabilities	
Deposits	$ 95,181
Other liabilities	54

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

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

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

NOTE 14 - ACQUISITIONS (continued)

The Company has entered into an agreement to purchase selected assets and assume all deposits of the Greentown, Indiana and Peru, Indiana offices of National City Bank. This purchase is scheduled to close during the first quarter of 1998 and is expected to add approximately $40 million in deposits.

NOTE 15 - PARENT COMPANY STATEMENTS

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

CONDENSED BALANCE SHEETS

	December 31 1997	December 31 1996
	(in thousands)	
ASSETS		
Deposits with Lake City Bank	$ 1,420	$ 15
Investment in subsidiaries	67,013	42,356
Other assets	577	8
Total assets	$ 69,010	$ 42,379
LIABILITIES		
Dividends payable and other liabilities	$ 135	$ 336
Subordinated debt	20,619	0
STOCKHOLDERS' EQUITY	48,256	42,043
Total liabilities and stockholders' equity	$ 69,010	$ 42,379

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31 1997	1996	1995
	(in thousands)		
Dividends from Lake City Bank	$ 982	$ 1,091	$ 928
Interest on deposits and repurchase agreements, Lake City Bank	24	24	6
Miscellaneous income	0	0	10
Equity in undistributed income of subsidiaries	7,085	5,353	4,719
Interest expense on subordinated debt	655	0	0
Miscellaneous expense	242	17	14
INCOME BEFORE INCOME TAXES	7,194	6,451	5,649
Income tax expense (benefit)	(346)	7	4
NET INCOME	$ 7,540	$ 6,444	$ 5,645

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31 1997	1996	1995
	(in thousands)		
Cash flows from operating activities			
Net income	$ 7,540	$ 6,444	$ 5,645
Adjustments to net cash from operating activities			
Equity in undistributed income of subsidiaries	(7,085)	(5,353)	(4,719)
Other changes	(770)	70	3
Net cash from operating activities	(315)	1,161	929
Cash flows from investing activities	(17,283)	(251)	104
Cash flows from financing activities	19,003	(920)	(1,023)
Net increase (decrease) in cash and cash equivalents	1,405	(10)	10
Cash and cash equivalents at beginning of the year	15	25	15
Cash and cash equivalents at end of the year	$ 1,420	$ 15	$ 25

NOTE 16 - 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, 1997 and 1996. Items which are not financial instruments are not included.

	1997		1996	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Assets:				
Cash and cash equivalents	$ 49,762	$ 49,762	$ 44,879	$ 44,879
Real estate mortgages held-for-sale	1,516	1,533	895	907
Securities available-for-sale	84,599	84,599	81,842	81,842
Securities held-to-maturity	163,559	166,079	125,274	126,373
Loans, net	453,326	450,542	376,959	376,086
Accrued income receivable	4,915	4,915	4,254	4,254
Mortgage servicing rights	425	425	205	205
Liabilities:				
Certificates of deposit	(393,620)	(394,543)	(308,543)	(309,997)
All other deposits	(219,372)	(219,372)	(188,010)	(188,010)
Securities sold under agreements to repurchase	(65,467)	(65,557)	(85,611)	(85,717)
Other short-term borrowings	(18,650)	(18,650)	(2,769)	(2,769)
Long-term debt	(25,367)	(25,442)	(23,531)	(23,466)
Guaranteed preferred beneficial interests in Company's subordinated debentures	19,211	20,187	0	0
Accrued expenses payable	(5,040)	(5,040)	(5,033)	(5,033)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 1997 and 1996. The estimated fair value for cash, cash equivalents and accruals is considered to approximate cost. Real estate mortgages held-for-sale are based upon either the actual contracted price for those loans sold but not yet delivered, or the current FHLMC price for normal delivery of mortgages with similar coupons and maturities at year-end. The estimated fair value for securities and guaranteed preferred beneficial interests in Company's subordinated debentures are based on quoted market rates for individual securities or for equivalent quality, coupon and maturity securities. The estimated fair value of loans is based on estimates of the rate the Company would charge for similar loans at December 31, 1997 and 1996, applied for the time period until estimated repayment. The estimated fair value of mortgage servicing rights is based upon valuation methodology which considers current market conditions and historical performance of the loans being serviced. The estimated fair value for demand and savings deposits is based on their carrying value. The estimated fair value for certificates of deposit and borrowings is based on estimates of the rate the Company would pay on such deposits or borrowings at December 31, 1997 and 1996, applied for the time period until maturity. The estimated fair value of short-term borrowed funds is considered to approximate carrying value. The estimated fair value of other financial instruments and off-balance sheet loan commitments approximate cost and are not considered significant to this presentation.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Company to have disposed of such items at December 31, 1997 and 1996, 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, 1997 and 1996, should not necessarily be considered to apply at subsequent dates.

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

NOTE 17 - 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, 1997 and 1996, were as follows:

	1997		1996	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commercial loan lines of credit	$ 6,503	$ 102,822	$ 13,063	$ 98,155
Commercial loan standby letters of credit	0	11,959	0	7,865
Real estate mortgage loans	1,185	586	941	532
Real estate construction mortgage loans	0	2,211	0	1,997
Credit card open-ended revolving lines	5,161	0	4,947	0

Home equity mortgage open-ended revolving lines	0	26,548	0	16,743
Consumer loan open-ended revolving lines	0	3,877	0	2,835
Total	$ 12,849	$ 148,003	$ 18,951	$ 128,127

NOTE 17 - COMMITMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES (continued)

At December 31, 1997 and 1996, the range of interest rates for commercial loan commitments with a fixed rate was 7.86% to 12.50% and 7.86% to 12.00%, respectively. The range of interest rates for commercial loan commitments with variable rates was 7.50% to 12.50% and 7.75% to 12.25% at December 31, 1997 and 1996, respectively. The index on variable rate commercial loan commitments is principally the Bank's base rate.

Commitments, excluding open-ended revolving lines, generally have fixed expiration dates of one year or less. Credit card open-ended revolving lines of credit are normally reviewed bi-annually and other personal lines of credit are normally reviewed annually. Since many commitments expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The 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 losses as a result of these commitments.

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

NOTE 18 - REGULATORY MATTERS

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, 1997 and 1996, the Company and Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 1997, the most recent notification from the federal regulators categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company's or Bank's category.

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(amounts in thousands)			
As of December 31, 1997						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 63,188	12.42%	>=$ 40,710	>= 8.00%	>=$ 50,887	>= 10.00%
Bank	$ 61,326	12.06%	>=$ 40,692	>= 8.00%	>=$ 50,865	>= 10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 53,736	10.56%	>=$ 20,355	>= 4.00%	>=$ 30,532	>= 6.00%
Bank	$ 56,017	11.01%	>=$ 20,346	>= 4.00%	>=$ 30,519	>= 6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 53,736	7.41%	>=$ 28,994	>= 4.00%	>=$ 36,243	>= 5.00%
Bank	$ 56,017	7.73%	>=$ 29,000	>= 4.00%	>=$ 36,249	>= 5.00%
As of December 31, 1996						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 46,863	11.19%	>=$ 33,506	>= 8.00%	>=$ 41,882	>= 10.00%
Bank	$ 46,840	11.18%	>=$ 33,506	>= 8.00%	>=$ 41,882	>= 10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 41,627	9.94%	>=$ 16,753	>= 4.00%	>=$ 25,129	>= 6.00%
Bank	$ 41,603	9.93%	>=$ 16,753	>= 4.00%	>=$ 25,129	>= 6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 41,627	6.53%	>=$ 25,503	>= 4.00%	>=$ 31,879	>= 5.00%
Bank	$ 41,603	6.52%	>=$ 25,510	>= 4.00%	>=$ 31,888	>= 5.00%

REPORT OF INDEPENDENT AUDITORS

Stockholders and Board of Directors
Lakeland Financial Corporation
Warsaw, Indiana

We have audited the accompanying consolidated balance sheets of Lakeland Financial Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 1997, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lakeland Financial Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for the years ended December 31, 1997, 1996 and 1995, in conformity with generally accepted accounting principles.

As discussed in Note 1, the Company adopted new accounting guidance for mortgage servicing rights in 1996.

Crowe, Chizek and Company LLP

South Bend, Indiana
January 16, 1998

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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FINANCIAL CONDITION

Liquidity

The Company manages its primary liquidity position to provide funding at the lowest possible cost, for anticipated loan demand and/or deposit run-off that occurs in the regular course of business. Such sources of liquidity are: Federal fund lines with correspondent banks, advances from the Federal Home Loan Bank, repurchase agreements with local customers and cash flow from the securities portfolio. This cash flow from the securities portfolio could total approximately $71.5 million in 1998, given current prepayment assumptions. Additionally, continuous growth into new markets in northern Indiana has diversified the retail deposit base, reducing volatility that might occur in one geographical location.

The Company manages a secondary liquidity position to provide funding in the event of unanticipated loan demand and/or deposit run-off. Management has designated approximately 33.8 percent of its investment portfolio as available-for-sale (AFS). This designation provides the liquidity to fund abnormal loan demand, or to manage the loss of deposits. The Company's securities are all very high quality and easily marketable, with 89.8 percent of the total securities portfolio either U.S. Treasuries, Federal agency securities or mortgage-backed securities directly or indirectly guaranteed by the Federal government.

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

During the year ended December 31, 1997, there was a net increase of $4.9 million in cash and cash equivalents. The major uses of cash during the period included the funding of a $53.3 million increase in loans, the purchase of securities totaling $81.3 million and the purchase of new premises and equipment of $5.5 million. Major sources of funds were: a net increase in cash from operating activities of $8.9 million, maturities and calls of securities totaling $40.7 million, an increase in deposits of $21.3 million, proceeds from acquisitions of $58.9 million, and net proceeds from issuance of guaranteed preferred beneficial interests in Company's subordinated debentures of $19.2 million.

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

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

Asset/Liability Management (ALCO) and Securities

The Board of Directors annually reviews and approves the ALCO policy used to manage interest rate risk. This policy sets guidelines for balance sheet structure that protects the Company from excessive net income volatility that could result from changing interest rates. The Company uses a GAP report, which details the relative mismatch of asset and liability cash flows occurring in specified time horizons, and a computer program to stress test the balance sheet under a wide variety of interest rate scenarios. This model quantifies the impact on income of such things as: changes in customer preference for products, basis risk between the assets and the funds supporting them and the risk inherent in different yield curves. The ALCO committee reviews these possible outcomes and makes loan, investment and deposit decisions that maintain reasonable balance sheet structure in light of potential interest rate movements. After the committee has specified a maximum risk tolerance for dollar margin volatility, the committee develops guidelines for the GAP ratios. As indicated in Table 1 - Repricing Opportunities, the Company's cumulative GAP ratio at December 31, 1997, for the next 12 months is a negative 10.8 percent of total assets. This ratio indicates that the interest margin could be slightly lower if interest rates rise, as compared to flat or falling interest rate environments. The computer model produces a slightly different result, and highlights one of the major problems with GAP analysis. While GAP may provide a basic guide to rate risk exposure in certain rate environments, it cannot effectively provide a dollar margin impact since it ignores the rates on maturing assets and liabilities, the different indices used to price products and the changes in customer preference that occur whenever interest rates change. Factoring all of these things into the computer simulation, the Company is exposed to falling rates. That is, the interest margin could be lower if rates fall. The degree of this exposure is within policy limits.

The Company's investment portfolios consist of U.S. Treasuries, agencies, mortgage-backed securities, municipal bonds and corporates. During 1997 purchases have been primarily U.S. Treasuries, mortgage-backed securities and municipal bonds. At December 31, 1997, the Company's investment in mortgage-backed securities comprised approximately 69 percent of total securities and consisted of CMO's and mortgage pools issued by GNMA, FNMA and FHLMC. As such, these securities are backed directly or indirectly by the Federal government. All mortgage securities are purchased to conform to the FFIEC high risk standards which prohibit the purchase of securities that have excessive price, prepayment, extension and original life risk characteristics.

The Company uses Bloomberg analytics to evaluate and monitor all purchases. At December 31, 1997, the mortgage securities in the AFS portfolio had a one and three-quarter year average life, with approximately 7 percent price depreciation should rates move up 300 basis points and approximately 4 percent price appreciation should rates move down 300 basis points. The mortgage securities in the held-to-maturity (HTM) portfolio had a two and one-half year average life and the potential for approximately 9 percent price depreciation should rates increase 300 basis points and approximately 5 percent price appreciation should rates move down 300 basis points. As of December 31, 1997, all mortgage securities continue to be in compliance with FFIEC guidelines, and are performing in a manner consistent with management's original expectations.

Capital Management

The Company believes that a strong capital position is vital to long-term earnings and expansion. Currently the Company maintains capital levels in excess of "well-capitalized" levels as defined by the FDIC. Bank regulatory agencies exclude the market value adjustment created by SFAS No. 115 (AFS adjustment) from capital adequacy calculations. Therefore, excluding this adjustment from the calculation, the Company attained Tier I leverage capital, Tier I risk based capital and Tier II risk based capital ratios of 7.4 percent, 10.6 percent and 12.4 percent, respectively at December 31, 1997. All three ratios exceed the "well-capitalized" minimums of 5.0 percent, 6.0 percent and 10.0 percent, respectively.

The ability to maintain these ratios at these levels is a function of net income growth and a prudent dividend policy. Total stockholders' equity increased by 14.8 percent, to $48,256,000 as of December 31, 1997, from $42,043,000 as of December 31, 1996. Total stockholders' equity increased by 31.3 percent or $11,502,000 from $36,754,000 as of December 31, 1995. The 1997 growth resulted from the retention of net income of $7,540,000, minus cash dividends declared of $1,741,000 plus the change in the AFS adjustment of $289,000, net of tax, plus $310,000 from issuing shares of common stock, less $185,000 for the purchase of treasury stock. The AFS adjustment reflects a 42 basis point decrease in three to five year

U. S. Treasury rates during 1997. Since the securities portfolio is primarily fixed rate, a positive equity adjustment should occur whenever interest rates decrease. Management has factored this into the determination of the size of the AFS portfolio, to assure that stockholders' equity is adequate under various scenarios. The 1996 growth of $5,289,000 resulted from the retention of net income of $6,444,000, minus cash dividends declared of $1,335,000, less the AFS adjustment of $235,000, net of tax, plus $415,000 from issuing shares of common stock. This 1996 AFS adjustment reflected an 82 basis point decrease in three to five year U. S. Treasury rates during 1996.

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. Nor is management aware of any regulatory recommendations that, if implemented, would have such an effect.

Allowance for Credit Risk

At December 31, 1997, the allowance for loan losses was $5,308,000 or 1.16 percent of total loans outstanding, compared with $5,306,000 or 1.39 percent of total loans outstanding at December 31, 1996. The process of identifying credit losses that may occur based upon current circumstances is subjective. Therefore, the Company maintains a general allowance to cover all credit losses within the entire portfolio. The methodology management uses to determine the adequacy of the loan loss reserve is as follows:

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

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

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

Given this methodology for determining the adequacy of the loan loss reserve, the provision for loan losses remained relatively low for 1997. This level reflects the amount in past due accruing loans (90 days or more) which continued to be at low levels throughout 1997. It also reflects the low level of nonaccrual loans during the same period. These trends in non-performing loans reflect both general economic conditions that have promoted growth and expansion in the Company's market area, and a credit risk management strategy that promotes diversification.

At December 31, 1997, 57.7 percent of the Company's allowance for loan losses was classified as unallocated. To a large extent, this reflects the growth in total loans over the last three years of $171 million, or about 59.3 percent, and the concentration of this loan growth in the commercial loan portfolio. With this type of commercial loan growth, management believes that it is prudent to continue to provide for loan losses, due to the inherent risk associated with commercial loans.

Inflation

For a financial institution, the effects of price changes and inflation can vary substantially. Inflation affects the growth of total assets, but it is difficult to assess its impact since neither the timing nor the magnitude of the changes in the consumer price index (CPI) coincides with changes in interest rates. The price of one or more of the important components of the CPI may fluctuate considerably and thereby influence the overall CPI without having a corresponding affect on interest rates or upon the cost of those goods and services normally purchased by the 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.

Growth and Expansion

The assets of the Company increased 21.3 percent, or $139,927,000, to $796,478,000 as of December 31, 1997, from $656,551,000 as of December 31, 1996. Assets at December 31, 1996, increased 15.5 percent, or $87,972,000, from $568,579,000 as of December 31, 1995. The Company has been pursuing expansion into contiguous markets since 1990. Most recently, the Company opened three new offices and acquired seven offices from other financial institutions during 1997. Plans call for expansion in Howard and Miami counties through the previously announced acquisition of the Greentown and Peru offices of National City Bank. This acquisition is scheduled to close during the first quarter of 1998. Although growth continues to be strong in the traditional markets served by the Company, much of the growth experienced in 1997 was in the new markets served by the Company. The Company's market area now includes the following counties in Indiana: Cass, Elkhart, Fulton, Huntington, Kosciusko, LaGrange, Marshall, Noble, Pulaski, St. Joseph, Wabash and Whitley. As in the past, the Company expects to continue to serve its market by adding new products, offices and ATM's in areas where the demographic trends dictate. This activity will contribute to net income in future years.

RESULTS OF OPERATIONS

1997 vs 1996

The growth of existing offices, opening of new offices and the purchase of offices from other financial institutions brought the Company assets to record levels in 1997. Total assets were at $796,478,000 at December 31, 1997, an increase of $139,927,000 (including the assets acquired in branch acquisitions in the fourth quarter of 1997) or 21.3 percent over the assets at December 31, 1996. Loans increased 20.0 percent, or $76,369,000, to $458,634,000 at year-end 1997. Total deposits increased 23.4 percent, or $116,439,000 (including deposits of $95,181,000 acquired in branch acquisitions in the fourth quarter of 1997), to $612,992,000 at December 31, 1997. Core funding, deposits plus securities sold under agreement to repurchase, increased 16.5 percent, or $96,295,000, to $678,459,000. Net income totaled $7,540,000, exceeding 1996 by 17.0 percent. On an average daily basis, gross earning assets increased by 13.5 percent and total deposits plus purchased funds increased by 13.8 percent.

Total interest income increased 14.7 percent, or $6,758,000 to $52,699,000 for the year ended December 31, 1997. This increase was a result of the increase in daily average earning assets and a 9 basis point increase in the overall tax equivalent yield on earning assets as compared to the 1996 overall tax equivalent yield. The increase in the tax equivalent yield on earning assets is reflective of the 17 basis point increase in the average prime rate during 1997, and the effect this prime rate increase had on the commercial loan portfolio and the home equity loan portfolio yields.

Nonearning assets of the Company include nonaccrual loans and investments, other real estate, and repossessions. These nonearning assets amounted to $1,317,000, $1,097,000 and $1,207,000 as of December 31, 1997, 1996 and 1995, respectively. Nonaccrual loans totaled $1,058,000, $384,000 and $532,000, respectively, at the end of the years 1997, 1996 and 1995. Two commercial loans and two mortgage loans account for the majority of the amount in nonaccrual loans for 1997.

Interest expense for 1997 was $28,060,000. This is an increase of $4,323,000, or 18.2 percent, over the interest expense for 1996. The increase in interest expense is attributable to the continued growth in interest bearing deposit balances and rising interest rates. Average daily balances of time deposits increased 15.4 percent over the prior year average daily balances and the average rate paid on time deposits increased 7 basis points. Average daily balances of total interest bearing deposits increased 12.3 percent and the average rate paid on total interest bearing deposits increased 11 basis points. The average daily balance of total deposits plus purchased funds increased 13.8 percent, as noted above, and the average rate paid increased 16 basis points. This increase also includes the guaranteed preferred beneficial interests in the Company's subordinated debentures added in 1997 and the related interest expense along with the additional advances from the Federal Home Loan Bank.

Net interest income increased $2,435,000 or 11.0 percent, to $24,639,000 in 1997, from $22,204,000 in 1996. Net interest income as a percentage of earning assets was 3.96 percent for 1997. This is a decrease of 10 basis points from the 4.06 percentage for 1996. This decrease resulted from the increase in the rates paid on total deposits and purchased funds being 7 basis points higher than the increase in the rates for earning assets. The increase in rates paid on deposits and purchased funds reflected both the effects of competition and the additional long-term borrowings during 1997.

As indicated in the Notes to Consolidated Financial Statements and the discussion of financial condition, management maintains the allowance for loan losses at an appropriate level given many different factors. The December 31, 1997, allowance of $5,308,000 is believed by management to be adequate to absorb all potential risk applicable to the classification of loans as loss, doubtful, substandard or special mention. This allowance does not represent or result from trends that will materially adversely impact future operating results, liquidity, or capital resources. Net interest income after provision for loan losses increased $2,286,000, or 10.4 percent, to $24,370,000 in 1997, from $22,084,000 in 1996.

Noninterest income for 1997 increased $1,705,000, or 29.4 percent, over the amount for 1996, totaling $7,504,000 for the year. All major components of noninterest income increased except for security gains and losses. Trust income increased 34.8 percent from the amount for 1996 to $1,188,000 for 1997 with major increases in fees for living trusts, testamentary trusts and employee benefit plans. Service charges on deposit accounts increased 19.9 percent to $3,369,000 for 1997. This increase resulted from the continued acceptance of the Company's individual deposit accounts paying fees. The $715,000 increase in other noninterest income resulted from increases in a variety of income sources including discount brokerage fees and ATM fees. The increase in gains on sales of real estate mortgages held-for-sale were a result of continued sales of mortgages to the secondary market. These gains were $545,000 for 1997 as compared to $412,000 for 1996, an increase of $133,000. The small security losses recorded in 1997 were primarily the result of several partial calls.

All components of noninterest expense increased for the year ended December 31, 1997, as compared to the prior year, with the largest increase being salaries and employee benefits. Salaries and employee benefit costs for 1997 increased $1,747,000, or 18.3 percent, to $11,317,000. This increase was attributable to a 21.3 percent increase in full-time equivalent employees (FTE) in 1997, to 388, along with normal salary increases. The increase reflects the impact of a full year of salaries and benefits related to the two offices opened during 1996 along with the three new offices opened during 1997 and the offices acquired from other financial institutions in November and December, 1997. Net occupancy and equipment costs increased to $3,144,000 in 1997, from $2,955,000 in 1996, an increase of $189,000 or 6.4 percent. Other expense increased 10.0 percent, or $543,000, to $5,953,000 for 1997. These increases resulted in noninterest expense for 1997 of $20,414,000, an increase of 13.8 percent, or $2,479,000, over the amount for 1996.

As a result of all these factors, income before income tax expense increased $1,512,000, or 15.2 percent, to $11,460,000 from the $9,948,000 for 1996. Income tax expense was $3,920,000 and $3,504,000 in 1997 and 1996, respectively, which represents 34.2 percent and 35.2 percent of income before taxes. Net income increased to $7,540,000 for 1997 from $6,444,000 for 1996, an increase of $1,096,000, or 17.0 percent. Net income per share was $2.60 for 1997, as compared to $2.22 for 1996. Net income of $7,540,000 represents an 18.1 percent return on January 1, 1997, stockholders' equity (excluding the equity adjustment related to SFAS No. 115), and a 1.10 percent return on average daily assets.

1996 vs 1995

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

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

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

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

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

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

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

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

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

TABLE 1 - REPRICING OPPORTUNITIES

The table below illustrates the funding gaps for selected maturity periods as of December 31, 1997, for Lake City Bank only. Repricing opportunities for fixed rate loans and mortgage-backed securities are based upon anticipated prepayment speeds. Demand deposit accounts and savings accounts are classified as having maturities beyond four years.

	Repricing or Maturing Within		
	6 Months	7-12 Months	1-4 Years
	(in thousands)		
Earning Assets			
Loans	$ 285,223	$ 49,684	$ 96,474
Securities	45,523	24,410	110,985
Short-term investments	4,247	198	0
Total	334,993	74,292	207,459
Deposits and Purchased Funds			
Transaction accounts	73,321	0	0
Time deposits	248,874	62,030	76,416
Short-term borrowings	69,783	8,084	6,250
Long-term borrowings	10,000	14,000	1,367
Total	401,978	84,114	84,033
Interest sensitivity GAP	$ (66,985)	$ (9,822)	$ 123,426
Cumulative interest sensitivity GAP	$ (66,985)	$ (76,807)	$ 46,619
Cumulative GAP as percent of earning assets	(9.4)%	(10.8)%	6.6%

LAKE CITY BANK OFFICERS

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

COMMERCIAL SERVICES

Charles D. Smith	Senior Vice President
Kelly K. Ayers	Vice President
David A. Bickel	Vice President
James R. Cowan	Vice President
Drew D. Dunlavy	Vice President
Michael E. Gavin	Vice President
Joseph F. Kessie	Vice President
William D. Leedy	Vice President
J. Randall Leininger	Vice President
H.A. "Rocky" Meyer	Vice President
Jack E. Mills	Vice President
Thomas G. Stark	Vice President
James C. Stout	Vice President
Randal U. Vutech	Vice President
Chad D. Brouyette	Assistant Vice President
Stephanie L. DuBois	Assistant Vice President
Brent E. Hoffman	Assistant Vice President
Kelli S. Robinson	Assistant Vice President
Timothy M. Rudge	Assistant Vice President
J. Chad Stoltzfus	Assistant Vice President
Michael A. Zimmerman	Commercial Banking Officer
Debera D. Bragg	Cash Management Officer

TRUST & INVESTMENTS

Dennis E. Cultice	Senior Vice President
Dennis A. Reeve	Vice President and Brokerage Services Mgr.
Anne M. Bailey	Vice President
William C. Coleman	Vice President
Jeanine D. Knowles	Vice President
Andrew S. Lewis	Vice President
Max A. Mock	Vice President
Judith R. Simcox	Vice President
Jill A. O'Sullivan	Assistant Vice President
Connie S. Miller	Trust Officer

MARKETING, HUMAN RESOURCES AND FACILITIES

D. Jean Northenor	Senior Vice President
Allyn P. Decker	Vice President

RETAIL SERVICES

Kevin L. Deardorff	Senior Vice President
Dale L. Cramer	Vice President
Thomas P. Frantz	Vice President
Janet K. Anderson	Assistant Vice President
Barry A. Bailey	Assistant Vice President
Dennis E. Dolby	Assistant Vice President
Craig A. Haecker	Assistant Vice President
T. Larry Mitchell	Assistant Vice President
W. Randy Yoder	Assistant Vice President
Glenn A. Goudey	Senior Mortgage Underwriter
Tammy L. Snyder	Mortgage Underwriter
Carolyn A. Crabb	Mortgage Banking Officer
April J. Gayton	Mortgage Banking Officer
Aaron M. Stroup	Mortgage Banking Officer
Rafael M. Villalon	Mortgage Banking Officer
Sarah Miller-Bontrager	Retail Banking Officer
Todd M. Sandbakken	Retail Banking Officer
Melanie R. Shipley	Retail Banking Officer
Lisa A. Stookey	Retail Banking Officer

FINANCIAL & OPERATIONS

Terry M. White	Executive Vice President
Frank A. Soltis	Senior Vice President and Operations Manager
James J. Nowak	Vice President and Controller
Teresa A. Bartman	Assistant Vice President and Assistant Controller
Judy K. Harvey	Vice President
Vicki D. Martin	Vice President
Lisa M. Bicknese	Assistant Vice President
Ruth A. Hutcherson	Assistant Vice President
Linda A. Owens	Assistant Vice President
Lorretta J. Burnworth	Operations Officer
Elizabeth A. Carlson	Operations Officer
Jean A. Ciriello	Operations Officer
Janice J. Cox	Operations Officer
Joanie L. Foreman	Operations Officer
William L. Hilliard	Operations Officer
Jan R. Martin	Operations Officer
Angela K. Ritchey	Operations Officer
Linda L. Swoverland	Operations Officer

AUDIT

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

LAKE CITY BANK OFFICERS

OFFICE ADMINISTRATION

Walter L. Weldy	Executive Vice President
Kevin L. Deardorff	Senior Vice President
M. Sue Creighton	Vice President
Jane E. Miller	Vice President
Jeannine P. Cooley	Assistant Vice President
Lisa L. Hockemeyer	Assistant Vice President
Karin A. Steffensmeier	Retail Banking Officer

OFFICES

Akron	L. Jane Murphy	Assistant Vice President
Argos	Stanley G. Reinholt	Assistant Vice President
Bremen	Matthew K. Bixel	Vice President
Columbia City	Donald L. Sexton	Vice President
	Lynnette E. Berry	Retail Banking Officer
Concord	Jeri L. Yoder	Assistant Vice President
Cromwell	Jerry L. Stoner	Office Manager
Elkhart Beardsley	Rosalie M. Smith	Vice President
	Samuel M. Bouie	Assistant Office Manager
Elkhart East	Debra L. Griggs	Office Manager
Elkhart Hubbard Hill	Thomas P. Walker	Assistant Vice President
Elkhart Northwest	Kathleen M. Dougherty	Office Manager
Goshen Downtown	Jane M. Greene	Office Manager
Goshen South	Clarence J. "CJ" Yoder	Vice President
Granger	Sandra J. Cencelewski	Office Manager
Greentown	Donna L. Graham	Assistant Vice President
Huntington	Judy A. Harshman	Assistant Vice President
Kendallville East	L. Duane Smith	Vice President
Kendallville Downtown	L. Duane Smith	Vice President
LaGrange	Cathy I. Hefty	Assistant Vice President
Ligonier South	Craig R. Atz	Vice President
	Jerry L. Stoner	Office Manager
Ligonier Downtown	Gaylord A. West	Vice President
	Nanceen P. Briggs	Retail Banking Officer
Logansport	Robert L. Baker	Vice President
Medaryville	Elaine C. Parish	Assistant Vice President
Mentone	Karen A. Francis	Assistant Vice President
Middlebury	Shannon D. Schrock	Office Manager
Milford	Timothy L. Sutton	Vice President
Mishawaka	Tammy S. Katona	Retail Banking Officer Office Manager
Nappanee	Larry L. Penrod	Vice President
	Kirtus D. Murray	Office Manager
North Webster	Jeanne G. Bowen	Vice President
Peru	Patricia D. Adams	Assistant Vice President
Pierceton	Lisa S. Fitzgerald	Office Manager
Plymouth	Michael D. Burroughs	Vice President
Roann	Merrill A. Templin	Assistant Vice President
Rochester	Phyllis M. Biddinger	Office Manager
Shipshewana	John R. Munsell	Vice President
Silver Lake	Deborah A. Lotz	Assistant Vice President
Syracuse	Donna J. Beck	Assistant Vice President
Wabash North	T.F. "Bob" Fuller	Vice President
Wabash South	Jody A. Slacian	Office Manager
Warsaw Downtown	Rosemary K. Baumgardner	Office Manager
Warsaw East	Pamela F. Messmore	Assistant Vice President
Warsaw West	Linda M. Riley	Office Manager
Winona Lake	Allan L. Disbro	Vice President

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THIS SCHEDULE CONTAINS FINANCIAL INFORMATION EXTRACTED FROM THE 12/31/97 FORM
10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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12-MOS
DEC-31-1997
DEC-31-1997
45,317
261
4,184
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