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, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from ____________ to ___________________

Commission File No. 0-11487

LAKELAND FINANCIAL CORPORATION

(exact name of Registrant as specified in its charter)

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

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

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

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

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

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

None

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

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

Aggregate market value of the voting stock held by non-affiliates of the Registrant, computed solely for the purposes of this requirement on the basis of the Nasdaq closing value at February 28, 1999, and assuming solely for the purposes of this calculation that all directors and executive officers of the Registrant are "affiliates": $97,180,974.

Number of shares of common stock outstanding at February 5, 1999: 5,794,743

DOCUMENTS INCORPORATED BY REFERENCE

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

Part	Document
I, II & IV	Lakeland Financial Corporation's Annual Report to Shareholders for the year ended December 31, 1998, portions of which are incorporated into Parts I, II and IV of this Form 10-K.
III	Proxy statement mailed to shareholders on March 15, 1999, which is incorporated into Part III of this Form 10-K.

Cover page 2 of 2 pages

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

The Bank's deposits are insured by the Federal Deposit Insurance Corporation. The Bank's activities cover all phases of commercial banking, including checking accounts, savings accounts, time deposits, the sale of securities under agreements to repurchase, 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, 1998, the Bank had 42 offices in fourteen counties throughout north central Indiana.

Supervision and Regulation.

General

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

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

The following is a summary of the material elements of the regulatory framework that applies to the Company and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply to the Company and its subsidiaries, nor does it restate all of the

requirements of the statutes, regulations and regulatory policies that are described. As such, the following is qualified in its entirety by reference to the applicable statutes, regulations and regulatory policies. Any change in applicable law, regulations or regulatory policies may have a material impact on the business of the Company and its subsidiaries.

Recent Regulatory developments

Pending Legislation. Legislation has been introduced in the Congress that would allow bank holding companies to engage in a wider range of nonbanking activities, including greater authority to engage in securities and insurance activities. The expanded powers generally would be available to a bank holding company only if the bank holding company and its subsidiaries remain well-capitalized and well-managed. At this time, the Company is unable to predict whether the proposed legislation will be enacted and, therefore, is unable to predict the impact such legislation may have on the Company or the Bank.

The Company

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

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

The BHCA also generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve to be "so closely related to banking ... as to be a proper incident thereto." Under current regulations of the Federal Reserve, the Company and its non-bank subsidiaries are permitted to engage in a variety of banking-related businesses, including the operations of a thrift, sales and

consumer finance, equipment leasing, the operation of a computer service bureau (including software development), mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies.

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

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

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

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

Under the Federal Reserve's guidelines, the capital standards described above apply on a consolidated basis to bank holding companies that have more than $150 million in total consolidated assets, but generally apply on a bank-only basis to bank holding companies that have less than $150 million in total assets. As of December 31, 1998, the Company had regulatory capital, calculated on a consolidated basis, in excess of the Federal Reserve's minimum requirements, with a risk based ratio of 10.83% and a leverage ratio of 6.39%.

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

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

and other restrictions and requirements of the SEC under the Exchange Act.

The Bank

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

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

During the year ended December 31, 1998, BIF assessments ranged from 0% of deposits to 0.27% of deposits. For the semi-annual assessment period beginning January 1, 1999, BIF assessments will continue to range from 0% of deposits to 0.27% of deposits.

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

FICO Assessment. Since 1987, a portion of the deposit insurance assessments paid by members of the FDIC's Savings Association Insurance Fund ("SAIF") has been used to cover interest payments due on the outstanding obligations of the Financing Corporation ("FICO"). FICO was created in 1987 to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the SAIF's predecessor insurance fund. As a result of federal legislation enacted in 1996, beginning as of January 1, 1997, both SAIF and BIF members became subject to assessments to cover interest payments on outstanding FICO obligations. These FICO assessments are in addition to the amounts assessed by the FDIC for deposit insurance. Until January 1, 2000, the FICO assessments made against BIF members may not exceed 20% of the amount of the FICO assessments made against SAIF members. Between January 1, 2000, and the final maturity on the FICO obligations in 2019, BIF members and SAIF members will share the cost of the interest on the FICO bonds on a pro rata basis. During the year ended December 31, 1998, the FICO assessment rate for SAIF members ranges between approximately 0.061% of deposits and approximately 0.063% of deposits, while the FICO assessment rate for BIF members ranged from approximately 0.012% of deposits and approximately 0.013% of deposits. During the year ended December 31, 1998, the Bank paid FICO assessments totaling approximately $79,000.

Supervisory Assessments. All Indiana banks are required to pay supervisory assessments to the DFI to fund the operations of the DFI. During the year ended December 31, 1998, the Bank paid supervisory assessments to the DFI totaling approximately $58,000.

Capital Requirements. The FDIC has established the following minimum

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

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

During the year ended December 31, 1998, the Bank was not required by the FDIC to increase its capital to an amount in excess of the minimum regulatory requirement. As of December 31, 1998, the Bank exceeded its minimum regulatory capital requirements with a leverage ratio of 6.55% and a risk-based capital ratio of 10.71%.

Federal law provides the federal banking regulators with broad powers to take prompt corrective actions to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well-capitalized", "adequately-capitalized", "undercapitalized", "significantly undercapitalized" or "critically undercapitalized", in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the institution to submit a capital restoration plan; limiting the institution's asset growth and restricting its activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions between the institution and its affiliates; restricting the interest rate the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and ultimately, appointing a receiver for the institution. As of December 31, 1998, the Bank was "well-capitalized".

Dividends. Indiana law prohibits the Bank from paying dividends in an amount greater than its undivided profits. The Bank is required to obtain the approval of the DFI for the payment of any dividend if the aggregate amount of all dividends paid by the Bank during the calendar year, including the proposed dividend, would exceed the sum of: (i) the total net profits of the Bank for that year; and (ii) the retained profits of the Bank for the previous two years. Indiana law defines "net profits" to mean the sum of all earnings from current operations plus actual recoveries on loans, investments and other assets, less the sum of all current operating expenses, actual losses, accrued dividends on preferred stock, if any, and all federal, state, and local taxes.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 1998. As of December 31, 1998, approximately $17 million was available to be paid as dividends to the Company by the Bank. Notwithstanding the availablitiy of funds for dividends, however, the FDIC may prohibit the payments of dividends by the Bank if the FDIC determines such payment would constitute an unsafe or unsound practice.

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

Safety and Soundness Standards. The federal banking agencies have adopted guidelines which establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings. In addition, in October, 1998, the federal banking regulators issued safety and soundness standards for achieving Year 2000 compliance, including standards for developing and managing Year 2000 project plans, testing remediation efforts and planning for contingencies.

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

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

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

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

Federal Reserve System. Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts) as follows: for transaction accounts aggregating $46.5 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of $46.5 million, the reserve requirement is $1.395 million plus 10% of the aggregate amount of total transaction accounts in excess of $46.5 million. The first $4.9 million of otherwise reservable balances are exempted from the reserve requirements. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Bank is in compliance with the foregoing requirements.

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 64.4% and 59.5% of the Company's loans at December 31, 1998 and December 31, 1997, were commercial in nature (including agri-business and agricultural loans), and, as of both December 31, 1998 and December 31, 1997, the Company estimates that in excess of 90% of its 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 contained in this Report after the date of this Report.

Material Changes and Business Developments

The Company conducts no business 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 shareholders. During the period from 1985 to 1987, the Company 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 Company 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 competes for loans principally through the range and quality of services it provides, interest rates and loan fees. The Bank believes that its convenience, quality service and hometown approach to banking enhances its ability to compete favorably in attracting and retaining individual and

business customers. The Bank actively solicits deposit-related customers and competes for customers by offering personal attention, professional service and competitive interest rates.

The Bank's service area is north central Indiana. In addition to the banks located within its service area, the Bank also competes with savings and loan associations, credit unions, farm credit services, finance companies, personal loan companies, insurance companies, money market funds, and other non-depository financial intermediaries. Also, financial intermediaries such as money market mutual funds and large retailers are not subject to the same regulations and laws that govern the operation of traditional depository institutions and accordingly may have an advantage in competing for funds.

The Bank competes with other major banks for large commercial deposit and loan accounts. The Bank is presently subject to an aggregate maximum loan limit to any single account of approximately $10 million pursuant to Indiana law. This maximum prohibits the Bank from providing a full range of banking services to those businesses or personal accounts whose borrowings periodically exceed this amount. In order to retain at least a portion of the banking business of these large borrowers, the Bank maintains correspondent relationships with other financial institutions. The Bank also participates with local and other banks in the placement of large borrowings in excess of its lending limit. The Bank is also a member of the Federal Home Loan Bank of Indianapolis in order to broaden its mortgage lending and investment activities and to provide additional funds, if necessary, to support these activities.

Foreign Operations

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

Employees

At December 31, 1998, the Company, including its subsidiaries, had 435 full- time equivalent employees. Benefit programs include a pension plan, 401(k) plan, group medical insurance, group life insurance and paid vacations. The Bank is not a party to any collective bargaining agreement, and employee relations are considered good. The Company also has a stock option plan under which stock options may be granted to employees and directors.

Industry Segments

The Company is engaged in a single industry and performs a single service -- commercial banking. On the pages that follow are tables which set forth selected statistical information relative to the business of the Company. This data should be read in conjunction with the consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set forth in the 1998 Annual Report to Shareholders herein incorporated by reference (attached hereto as Exhibit 13).

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

	1998			1997		
	Average Balance	Interest Income	Yield(1)	Average Balance	Interest Income	Yield(1)
ASSETS						
Earning assets:						
Trading account investments	$ 0	$ 0	0.00%	$ 0	$ 0	0.00%
Loans:						
Taxable (2)	486,437	44,225	9.09	410,798	38,265	9.31
Tax exempt (1)	2,899	295	10.18	3,235	345	10.66
Investments:(1)						
Available-for-sale	142,499	9,062	6.36	80,627	5,396	6.69
Held-to-maturity	160,173	10,858	6.78	136,618	9,244	6.77
Short-term investments	9,545	510	5.34	5,275	284	5.38
Interest bearing deposits	133	9	6.77	234	19	8.12
Total earning assets	801,686	64,959	8.10%	636,787	53,553	8.41%
Nonearning assets:						
Cash and due from banks	36,215	0		27,479	0	
Premises and equipment	25,198	0		17,961	0	
Other nonearning assets	24,324	0		11,735	0	
Less: allowance for loan losses	(5,403)	0		(5,302)	0	
Total assets	$ 882,020	$ 64,959		$ 688,660	$ 53,553	

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 34 percent tax rate for 1998 and 1997. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983, included the TEFRA adjustment applicable to nondeductible interest expenses. Nonaccrual loans are included in the above analysis as earning assets - loans.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 1998 and 1997, 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 Income	Yield(1)	Average Balance	Interest Income	Yield(1)
ASSETS						
Earning assets:						
Trading account investments	$ 0	$ 0	0.00%	$ 0	$ 0	0.00%
Loans:						
Taxable (2)	410,798	38,265	9.31	349,336	32,724	9.37
Tax exempt (1)	3,235	345	10.66	3,475	373	10.73
Investments:(1)						
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 nonearning 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	

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

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 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)

	1998			1997		
	Average Balance	Interest Expense	Rate	Average Balance	Interest Expense	Rate
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Savings deposits	$ 55,299	$ 1,331	2.41%	$ 45,278	$ 1,152	2.54%
Interest bearing checking accounts	65,895	1,322	2.01	55,063	1,180	2.14
Time deposits:						
In denominations under $100,000	326,123	17,234	5.28	230,171	12,406	5.39
In denominations over $100,000	142,589	8,267	5.80	109,759	6,445	5.87
Miscellaneous short-term borrowings	90,752	4,724	5.21	90,097	4,921	5.46
Long-term borrowings	44,349	3,213	7.24	29,655	1,956	6.60
Total interest bearing liabilities	725,007	36,091	4.98%	560,023	28,060	5.01%
Non-interest bearing liabilities and stockholders' equity:						
Demand deposits	98,957	0		77,276	0	
Other liabilities	7,386	0		6,498	0	
Stockholders' equity	50,670	0		44,863	0	
Total liabilities and stock-holders' equity	$ 882,020	$ 36,091		$ 688,660	$ 28,060	
Net interest differential - yield on average daily earning assets		$ 28,868	3.60%		$ 25,493	4.00%

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	6,498	0		5,553	0	
Stockholders' equity	44,863	0		39,043	0	
Total liabilities and stock-holders' equity	$ 688,660	$ 28,060		$ 604,610	$ 23,737	
Net interest differential - yield on average daily earning assets		$ 25,493	4.00%		$ 23,041	4.10%

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

YEAR ENDED DECEMBER 31,

	1998 Over (Under) 1997(1)			1997 Over (Under) 1996(1)		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST AND LOAN FEE INCOME(2)						
Loans:						
Taxable	$ 6,896	$ (936)	$ 5,960	$ 5,724	$ (183)	$ 5,541
Tax exempt	(35)	(15)	(50)	(26)	(2)	(28)
Investments:						
Available-for-sale	3,947	(281)	3,666	(230)	255	25
Held-to-maturity	1,597	17	1,614	1,131	48	1,179
Short-term investments	228	(2)	226	1	57	58
Interest bearing deposits	(7)	(3)	(10)	1	(1)	0
Total interest income	12,626	(1,220)	11,406	6,601	174	6,775
INTEREST EXPENSE						
Savings deposits	244	(65)	179	35	(1)	34
Interest bearing checking accounts	221	(79)	142	31	(29)	2
Time deposits						
In denominations under $100,000	5,075	(247)	4,828	1,168	9	1,177
In denominations over $100,000	1,904	(82)	1,822	1,382	177	1,559
Miscellaneous short-term borrowings	36	(233)	(197)	614	94	708
Long-term borrowings	1,049	208	1,257	640	203	843
Total interest expense	8,529	(498)	8,031	3,870	453	4,323
INCREASE (DECREASE) IN INTEREST DIFFERENTIALS	$ 4,097	$ (722)	$ 3,375	$ 2,731	$ (279)	$ 2,452

(1) The earning assets and interest bearing liabilities used to calculate interest differentials are based on average daily balances for 1998, 1997 and 1996. The changes in volume represent "changes in volume times the old rate". The changes in rate represent "changes in rate times old volume". The changes in rate/volume were also calculated by "change in rate times change in volume" and allocated consistently based upon the relative absolute values of the changes in volume and changes in rate.

(2) Tax exempt income was converted to a fully taxable equivalent basis at a 34 percent tax rate for 1998, 1997 and 1996. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983, included the TEFRA adjustment applicable to nondeductible interest expense.

ANALYSIS OF SECURITIES
(in thousands of dollars)

The amortized cost and the fair value of securities as of December 31, 1998, 1997 and 1996 were as follows:

	1998		1997		1996	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale:						
U.S. Treasury securities	$ 38,938	$ 39,521	$ 28,833	$ 29,286	$ 31,604	$ 31,804
U.S. Government agencies and corporations	1,990	2,030	100	100	500	507
Mortgage-backed securities	225,741	225,914	52,746	53,309	46,002	46,332
Obligations of state and political subdivisions	56,924	59,112	1,787	1,904	2,081	2,167
Other debt securities	1,005	1,081	0	0	1,000	1,032
Total debt securities available-for-sale	$ 324,598	$ 327,658	$ 83,466	$ 84,599	$ 81,187	$ 81,842
Securities held-to-maturity:						
U.S. Treasury securities	$ 0	$ 0	$ 21,170	$ 21,501	$ 17,020	$ 17,077
U.S. Government agencies and corporations	0	0	2,176	2,246	2,262	2,362
Mortgage-backed securities	0	0	116,788	117,185	83,811	83,719
Obligations of state and political subdivisions	0	0	22,418	24,044	21,172	22,095
Other debt securities	0	0	1,007	1,103	1,009	1,120
Total debt securities held-to-maturity	$ 0	$ 0	$ 163,559	$ 166,079	$ 125,274	$ 126,373

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

The weighted average yields (1) and maturity distribution (2) for debt securities portfolio at December 31, 1998, were as follows:

	Within One Year	After One Year Within Five Years	After Five Years Within Ten Years	Over Ten Years
Securities available-for-sale:				
U.S. Treasury securities				
Book value	$ 5,000	$ 33,938	$ 0	$ 0
Yield	5.85%	6.36%		
Government agencies and corporations				
Book value	1,990	0	0	0
Yield	7.18			
Mortgage-backed securities				
Book value	2,501	10,871	112,608	99,761
Yield	7.60	7.17	7.03	7.78
Obligations of state and political subdivisions				
Book value	220	344	5,968	50,392
Yield	6.64	6.79	5.71	5.23
Other debt securities				
Book value	0	1,005	0	0
Yield		10.13		
Total debt securities available-for-sale:				
Book value	$ 9,711	$ 46,158	$ 118,576	$ 150,153
Yield	6.59%	6.64%	6.96%	6.92%

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

There were no investments in securities of any one issuer that exceed 10% of stockholders' equity at December 31, 1998.

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

The Company segregates its loan portfolio into four basic segments: commercial (including agri-business and agricultural loans), real estate mortgages, installment and personal line of credit loans (including credit card loans). The loan portfolio as of December 31, 1998, 1997, 1996, 1995 and 1994 was as follows:

	1998	1997	1996	1995	1994
Commercial loans:					
Taxable	$ 343,858	$ 269,887	$ 226,190	$ 192,359	$ 173,325
Tax exempt	2,867	3,065	3,414	3,636	3,207
Total commercial loans	346,725	272,952	229,604	195,995	176,532
Real estate mortgage loans	60,555	65,368	60,949	55,948	47,296
Installment loans	100,196	89,107	71,398	58,175	48,228
Line of credit and credit card loans	31,020	31,207	20,314	17,499	15,900
Total loans	538,496	458,634	382,265	327,617	287,956
Less allowance for loan losses	5,510	5,308	5,306	5,472	4,866
Net loans	$ 532,986	$ 453,326	$ 376,959	$ 322,145	$ 283,090

The real estate mortgage loan portfolio included construction loans totaling $2,975, $3,089, $1,647, $1,224, and $426 as of December 31, 1998, 1997, 1996, 1995 and 1994. The loan classifications are based on the nature of the loans as of the loan origination date. There were no foreign loans included in the loan portfolio for the periods presented.

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

Repricing opportunities of the loan portfolio occur either according to predetermined adjustable rate schedules included in the related loan agreements or upon scheduled maturity of each principal payment. The following table indicates the rate sensitivity of the loan portfolio as of December 31, 1998. 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	Line of Credit and Credit Card	Total	Percent
Immediately adjustable interest rates or original maturity of one day	$ 211,701	$ 0	$ 0	$ 28,040	$ 239,741	44.2%
Other within one year	26,079	43,980	33,619	2,980	106,658	19.7
After one year, within five years	88,708	13,522	63,629	0	165,859	30.6
Over five years	20,237	6,849	2,948	0	30,034	5.5
Nonaccrual loans	0	0	0	0	0	0.0
Total loans	$ 346,725	$ 64,351	$ 100,196	$ 31,020	$ 542,292	100.0%

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

Loans due after one year which have a predetermined interest rate and loans due after one year which have floating or adjustable interest rates as of December 31, 1998 amounted to $179,000 and $48,703.

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, 1998, 1997, 1996, 1995 and 1994.

	1998	1997	1996	1995	1994
PART A - PAST DUE ACCRUING LOANS (90 DAYS OR MORE)					
Real estate mortgage loans	$ 0	$ 0	$ 126	$ 122	$ 0
Commercial and industrial loans	159	236	22	69	16
Loans to individuals for household, family and other personal expenditures	68	69	68	18	19
Loans to finance agriculture production and other loans to farmers	0	0	0	0	0
Total past due loans	227	305	216	209	35
PART B - NONACCRUAL LOANS					
Real estate mortgage loans	0	337	155	76	18
Commercial and industrial loans	0	720	229	456	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	0	1,057	384	532	18
PART C - TROUBLED DEBT RESTRUCTURED LOANS	1,281	1,377	1,284	1,432	1,484
Total nonperforming loans	$ 1,508	$ 2,739	$ 1,884	$ 2,173	$ 1,537

Nonearning assets of the Company include nonaccrual loans (as indicated above), nonaccrual investments, other real estate, and repossessions, which amounted to $626 at December 31, 1998.

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 line of credit programs, are charged-off when collection appears doubtful.

PART B - NONPERFORMING LOANS

When a loan is classified as a nonaccrual loan, interest on the loan is no longer accrued and all accrued interest receivable is charged off. It is the policy of the Bank that 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, 1998, there were no loans on nonaccrual status.

PART C - TROUBLED DEBT RESTRUCTURED LOANS

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

Loans renegotiated as troubled debt restructurings totaled $1,281,000 as of December 31, 1998. Interest income of $84,000 was recognized in 1998. Had these loans been performing under the original contract terms, an additional $47,000 would have been reflected in interest income during 1998. The Company is not committed to lend additional funds to debtors whose loans have been modified.

PART D - OTHER NONPERFORMING ASSETS

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

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 these policies and objectives, $480,000, $269,000 and $120,000 were charged to the provision for loan losses and added to the allowance for loan losses in 1998, 1997 and 1996.

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

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

Following is a summary of the loan loss experience for the years ended December 31, 1998, 1997, 1996, 1995 and 1994.

	1998	1997	1996	1995	1994
Amount of loans outstanding, December 31,	$ 538,496	$ 458,634	$ 382,265	$ 327,617	$ 287,956
Average daily loans outstanding during the year ended December 31,	$ 489,336	$ 414,033	$ 352,811	$ 309,241	$ 271,391
Allowance for loan losses, January 1,	$ 5,308	$ 5,306	$ 5,472	$ 4,866	$ 4,010
Loans charged-off					
Commercial	9	99	171	137	27
Real estate	0	33	0	48	0
Installment	329	190	158	112	93
Credit cards and personal credit lines	78	37	39	58	15
Total loans charged-off	416	359	368	355	135
Recoveries of loans previously charged-off					
Commercial	44	18	12	26	107
Real estate	0	0	0	0	1
Installment	86	66	54	63	81
Credit cards and personal credit lines	8	8	16	6	7
Total recoveries	138	92	82	95	196
Net loans charged-off	278	267	286	260	(61)
Purchase loan adjustment	0	0	0	746	0
Provision for loan loss charged to expense	480	269	120	120	795
Balance, December 31,	$ 5,510	$ 5,308	$ 5,306	$ 5,472	$ 4,866
Ratio of net charge-offs during the period to average daily loans outstanding					
Commercial	(0.01)%	0.02%	0.03%	0.03%	(0.03)%
Real estate	0.00	0.01	0.01	0.01	0.00
Installment	0.05	0.03	0.00	0.02	0.01
Credit cards and personal credit lines	0.02	0.01	0.04	0.02	0.00
Total	0.06%	0.07%	0.08%	0.08%	(0.02)%
Ratio of allowance for loan losses to nonperforming assets	258.20%	176.99%	204.31%	192.20%	208.48%

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, 1998, 1997, 1996, 1995 and 1994.

	1998		1997		1996	
	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	$ 1,647	64.39	$ 1,341	59.52	$ 1,213	60.07
Real estate	130	11.24	131	14.25	123	15.94
Installment	845	18.61	673	19.43	530	18.68
Credit cards and personal credit lines	130	5.76	103	6.80	151	5.31
Total allocated allowance for loan losses	2,752	100.00	2,248	100.00	2,017	100.00
Unallocated allowance for loan losses	2,758		3,060		3,289	
Total allowance for loan losses	$ 5,510		$ 5,308		$ 5,306	

	1995		1994	
	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	$ 811	59.82	$ 665	61.31
Real estate	112	17.08	95	16.42
Installment	376	17.76	311	16.75
Credit cards and personal credit lines	112	5.34	101	5.52
Total allocated allowance for loan losses	1,411	100.00	1,172	100.00
Unallocated allowance for loan losses	4,061			3,694
Total allowance for loan losses	$ 5,472		$ 4,866	

ANALYSIS OF DEPOSITS
(in thousands of dollars)

The average daily deposits for the years ended December 31, 1998, 1997 and 1996, and the average rates paid on those deposits are summarized in the following table:

	1998		1997		1996	
	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid
Demand deposits	$ 98,957	0.00	$ 77,276	0.00	$ 69,459	0.00
Savings accounts:						
Regular savings	55,299	2.41	45,278	2.54	43,847	2.55
Interest bearing checking	65,895	2.01	55,063	2.14	53,625	2.20
Time deposits:						
Deposits of $100,000 or more	142,589	5.80	109,759	5.87	86,137	5.67
Other time deposits	326,123	5.28	230,171	5.39	208,499	5.39
Total deposits	$ 688,863	4.09	$ 517,547	4.09	$ 461,567	3.99

As of December 31, 1998, time certificates of deposit in denominations of $100,000 or more will mature a as follows:

Within three months	$ 71,117
Over three months, within six months	51,027
Over six months, within twelve months	21,711
Over twelve months	10,136
Total time certificates of deposit in denominations of $100,000 or more	$ 153,991

QUALITATIVE MARKET RISK DISCLOSURE

Management's market risk disclosure appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 1998 Annual Report to Shareholders and is incorporated herein by reference in response to this item. The Company's primary market risk exposure is interest rate risk. The Company does not have a material exposure to foreign currency exchange rate risk, does not own any derivative financial instruments and does not maintain a trading portfolio.

RETURN ON EQUITY AND 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, 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Percent of net income to:			
Average daily total assets	0.89%	1.10%	1.07%
Average daily stockholders' equity	15.57	16.81	16.50
Percentage of dividends declared per common share to net income per weighted average number of common shares outstanding (5,813,984 shares in 1998, 5,813,162 shares in 1997, and 5,792,825 shares in 1996)	24.26	23.08	20.72
Percentage of average daily stockholders' equity to average daily total assets	5.74	6.51	6.46

SHORT-TERM BORROWINGS
(in thousands of dollars)

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

	1998	1997	1996
Outstanding at year end	$ 110,163	$ 65,467	$ 85,611
Approximate average interest rate at year end	4.78%	4.90%	5.11%
Highest amount outstanding as of any month end during the year	$ 110,163	$ 98,917	$ 89,433
Approximate average outstanding during the year	$ 84,157	$ 83,732	$ 73,728
Approximate average interest rate during the year	5.19%	5.45%	5.33%

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

ITEM 2. PROPERTIES

The Company conducts its operations from the following locations:

Branches/Headquarters			
Main / Headquarters	202 E. Center St.	Warsaw	IN
Warsaw Drive-up	East Center St.	Warsaw	IN
Akron	102 East Rochester	Akron	IN
Argos	100 North Michigan	Argos	IN
Bremen	1600 Indiana State Road 331	Bremen	IN
Columbia City	601 Countryside Dr.	Columbia City	IN
Concord	4202 Elkhart Road	Goshen	IN
Cromwell	111 North Jefferson St.	Cromwell	IN
Elkhart Beardsley	864 East Beardsley St.	Elkhart	IN
Elkhart East	22050 State Road 120	Elkhart	IN
Elkhart Hubbard Hill	58404 State Road 19	Elkhart	IN
Elkhart Northwest	1208 N. Nappanee St.	Elkhart	IN
Goshen Downtown	102 North Main St.	Goshen	IN
Goshen South	2513 South Main St.	Goshen	IN
Granger	12830 State Road 23	Granger	IN
Greentown	520 W. Main	Greentown	IN
Huntington	1501 N. Jefferson St.	Huntington	IN
Kendallville East	631 Professional Way	Kendallville	IN
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
Peru	2 N. Broadway	Peru	IN
Pierceton	202 South First St.	Pierceton	IN
Plymouth	862 E. Jefferson St.	Plymouth	IN
Roann	110 Chippewa St.	Roann	IN
Rochester	507 East 9th St.	Rochester	IN
Shipshewana	895 North Van Buren St.	Shipshewana	IN
Silver Lake	102 Main St.	Silver Lake	IN
Syracuse	502 South Huntington	Syracuse	IN
Wabash North	1004 North Cass St.	Wabash	IN
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 Company leases from third parties the real estate and buildings for its offices in Akron and Milford. In addition, the Company leases the real estate for its Wabash North office and its free-standing ATMs. All the other branch facilities are owned by the Company. The Company also owns parking lots in downtown Warsaw for the use and convenience of Company employees and customers, as well as leasehold improvements, equipment, furniture and fixtures necessary and appropriate to operate the banking facilities.

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

No matter was submitted to a vote of security holders during the fourth quarter of 1998.

PART II

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

Information relating to the principal market for and the prices of the Company's common stock, and information as to dividends are contained under the caption "Stock and Dividend Information" in the 1998 Annual Report to Shareholders and are incorporated herein by reference. On December 31, 1998, the Registrant had 1,536 shareholders of record, including those employees who participate in the Company's 401(K) plan.

On January 9, 1996, the Company sold 40,000 shares of authorized but previously unissued common stock for $10.38 per share (as adjusted for all subsequent stock splits). On April 30, 1996, the common stock split two-for-one.

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

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

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

On April 30, 1998, the common stock split two-for-one.

ITEM 6. SELECTED FINANCIAL DATA

A five year consolidated financial summary, containing the required selected financial data, appears under the caption "Selected Financial Data" on page 7 in the 1998 Annual Report to Shareholders and is incorporated herein by reference.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 27 - 32 in the 1998 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk appear under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 27 - 32 in the 1998 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements appear in the 1998 Annual Report to Shareholders and are incorporated herein by reference.

Consolidated Balance Sheets at December 31, 1998 and 1997.
Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996.
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996.
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996.
Notes to Consolidated Financial Statements.
Report of Independent Auditors.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information appearing in the definitive Proxy Statement dated March 15, 1999, is incorporated herein by reference in response to this item.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing in the definitive Proxy Statement dated March 15, 1999, is incorporated herein by reference in response to this item. The sections in the Proxy Statement marked "Report of the Compensation Committee on Executive Compensation" and "Stock Price Performance" are furnished for the information of the Commission and are not deemed to be "filed" as part of the Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing in the definitive Proxy Statement dated March 15, 1999, is incorporated herein by reference in response to this item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing in the definitive Proxy Statement dated March 15, 1999, is incorporated herein by reference in response to this item.

PART IV

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

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

(1) Financial Statements.

The following financial statements appear in the 1998 Annual Report to Shareholders and are specifically incorporated by reference under Item 8 of this Form 10-K, or are a part of this Form 10-K, as indicated and at the pages set forth below.

	Reference	
	Form 10-K	1998 Annual Report
Consolidated Balance Sheets at December 31, 1998 and 1997.		9
Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996.		10
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996.		11
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996.		12
Notes to Consolidated Financial Statements.		13 - 24
Report of Independent Auditors.		26

(2) Financial Statement Schedules.

Financial statement schedules 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.

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 9, 1999	By R. Douglas Grant (R. Douglas Grant) Chairman

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

Date: March 9, 1999	Michael L. Kubacki (Michael L. Kubacki) Principal Executive Officer and Director
Date: March 9, 1999	Terry M. White (Terry M. White) Principal Financial and Accounting Officer
Date: March 9, 1999	R. Douglas Grant (R. Douglas Grant) Director
Date:	(Anna K. Duffin) Director
Date: March 9, 1999	Eddie Creighton (Eddie Creighton) Director
Date: March 9, 1999	L. Craig Fulmer (L. Craig Fulmer) Director
Date: March 9, 1999	Jerry L. Helvey (Jerry L. Helvey) Director
Date:	(Allan J. Ludwig) Director
Date: March 9, 1999	Charles E. Niermier (Charles E. Niemier) Director

Date: March 9, 1999	Richard L. Pletcher (Richard L. Pletcher) Director
Date: March 9, 1999	Terry L. Tucker (Terry L. Tucker) Director
Date:	(M. Scott Welch) Director
Date: March 9, 1999	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 - 1998 Report to Shareholders with Report of Independent Auditors.

Exhibit 21 - Subsidiaries

Exhibit 27 - Financial Data Schedule

EXHIBIT 13

1998 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 13, 1999, at the Shrine Building, Kosciusko County Fair Grounds, Warsaw, Indiana. As of December 31, 1998, there were approximately 1,500 shareholders.

Special Notice: Form 10-K Available

The Company will provide without charge to each shareholder its 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 Lakeland Financial Corporation, Attn: Treasurer, P.O. Box 1387, Warsaw, Indiana 46581-1387. The Form 10-K and related exhibits are also available on the Internet at www.sec.gov.

Registrar and Transfer Agent

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

Stock and Dividend Information

The following companies are market makers in Lakeland Financial Corporation stock and have reported the bid-ask prices for the Company's stock as set forth in the Selected Quarterly Data for the first three quarters of 1997.

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

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. "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.

The high-low prices as set forth in the Selected Quarterly Data for the fourth quarter of 1997 were obtained from the Bloomberg Business News service. The high-low prices for 1998 were obtained from The Nasdaq Stock Market.

Chairman's Letter

Dear Shareholders:

This is my last letter to you as Chief Executive Officer of Lakeland Financial Corporation and Lake City Bank. We can all be pleased that this is the result of my aging process and the inevitable passage of time, and not because of a sale or merger of our fine Corporation.

It has been an exciting privilege to serve the Lake City Bank for 19 years. I am proud of our management team as well as our employees who have contributed to our joint success. Assets have grown from about $100 million to just under $1 billion with corresponding increases in earnings, stock value, and other key numbers. This has been an exciting time in the financial industry, and I was lucky to be a part of it with a truly great local, independent, community bank. My successor, CEO and President Michael L. Kubacki, will now competently carry the flag.

It is noteworthy that Mike Kubacki not only possesses an outstanding banking resume but also has local roots, having grown up in Kosciusko County and graduated from the old Pierceton High School. He is an alumni of Indiana University and has an MBA from the University of Chicago.

Mike Kubacki was with Northern Trust Company for 25 years. Early he ran that bank's Correspondent Banking Department with responsibility for lending to banks and insurance companies across the country. In the late 1980's he was President and CEO of a subsidiary bank in Oak Brook, Illinois. More recently he worked in California for Northern Trust as an Executive Vice President heading up the Los Angeles area.

While stepping down as CEO, I do not plan to disassociate myself from the

Bank. I will be active as Chairman of the Board on a daily basis for a relatively short period of time, but continue on after retirement as Chairman of the Board for the foreseeable future. This will entail the usual Chairman's duties as well as serving on various Board committees and offering counsel when appropriate.

My sincere thanks to all of our customers, employees and shareholders for the opportunity of working together in building a great institution.

R. Douglas Grant
Chairman

Historically low interest rates, the competitive environment, and Year 2000 issues provided many challenges and opportunities for Lakeland Financial Corporation and Lake City Bank in 1998. The success we enjoyed in meeting these challenges resulted in record net income, loans and assets. A major factor in the Corporation's success continues to be a commitment to providing convenient, quality service to our customers. The hometown approach to banking continues to be well received in our communities, as demonstrated by your Corporation's growth during 1998.

And our growth continues strong. Through branch acquisitions and de novo offices, we added nineteen offices in the last five years. Our primary market area comprises 42 offices in 33 towns in 14 counties in north central Indiana. Assets totaled $979 million at year-end 1998, representing a 22.9 percent increase over year-end 1997. This strong growth reflects the economic vitality of our markets and the benefits derived from being a locally owned and operating independent community bank. The recent sales and consolidation of banks in northern Indiana has resulted in some customer dissatisfaction with the service they provide. This dissatisfaction has contributed to our recent loan and deposit growth as customers have sought more personal, traditional relationships.

Total assets increased $182 million over the prior year. Approximately $35 million of this increase was due to the Peru and Greentown offices acquired from Cleveland's National City Bank in February. We opened a new office in Plymouth, Indiana, which was well received and added over $7 million in 1998. The remaining increase was a result of growth in existing offices. Net income for the year was a record $7,888,000, an increase of 5 percent over 1997. This reflects continued pressure on the interest margin, excellent asset quality, a strong fee income year, and the increased expenses related to our growth and investment in technology.

The financial services industry continued to feel pressure on the interest margin as interest rates remained at historically low levels and competition for loans and deposits intensified. As expected, the interest margin, or spread between what we earn on assets and what we pay on deposits and other funds used to support these assets, declined again in 1998. A contributing factor in this decline was the acquisitions of offices from other financial institutions in late 1997 and early 1998. The majority of assets received in these acquisitions were cash and facilities. The cash received was mostly invested in securities. Since securities normally earn less than loans, this has resulted in a lower spread on these funds until they can be more profitably invested in quality loans. While loan growth continued to be strong in 1998, especially in the commercial area, our challenge to increased profitability in 1999 will be our ability to continue generating high quality loans.

Our success in growing loans in 1998 was made possible by a professional, knowledgeable staff dedicated to responding to customer needs. Through their efforts loans grew 17 percent with significant growth in commercial and consumer loans. Commercial loans grew by 27 percent and consumer loans grew by 9 percent. Delinquencies and charge-offs remained low as compared to industry averages.

We are also pleased with the growth in deposits during 1998. Total deposits increased $126 million, or about 21 percent, during 1998. Approximately $35 million of this growth was a result of the offices acquired in February, with the remaining growth in existing offices. This growth is a reflection of the economic strength in the markets we serve and of our commitment to providing the quality products and services demanded.

The low interest rate environment during the year had a significant impact on noninterest income. This environment helped generate a significant increase in mortgage lending activity. The gains on sales of mortgage loans increased 169 percent to $1.5 million. This interest rate environment also provided an opportunity to sell securities from the available-for-sale portfolio at a profit, while better positioning the portfolio for future liquidity needs. These gains were approximately $1.3 million.

All other components of noninterest income increased. We are particularly pleased with our results in the brokerage area, which far exceeded expectations for growth in accounts and fees in 1998. The increase in service charges on deposits reflects the large increase in the number of deposit accounts.

A major challenge during 1998 was the completion of a two-year, $4.5 million investment in technology. As we grew from $497 million in 1994, to $979 million in 1998, updated technology was needed for us to continue to provide superior local service and to ensure our preparedness for the Year 2000. These investments included new teller and sales systems, new image capture software and hardware, a data warehouse system, and a new telephone system. These investments in technology also include modifications and replacements of systems, computer programs and equipment based upon an extensive review and analysis of the potential impact of Year 2000. These improvements position us for future growth, and allow any bank office to provide customers with the type of service and information that they expect from the hometown bank. The cost of these improvements, and the thirty percent increase in the branch network in 1998, resulted in a similar percentage increase in occupancy and equipment costs in 1998. We experienced a 24.4 percent increase in salaries and benefits related to the growth in offices. Also $942,000 of expense was incurred due to the amortization of the intangible assets relating to the branch purchases in late 1997 and early 1998.

The Commercial Banking Division had an excellent year providing financing for large and small businesses. Commercial loans outstanding increased by a record $74 million to $347 million at year end from $273 million a year earlier while maintaining asset quality. The Division hosted several seminars designed to assist business and agri-business customers in dealing with the complex challenges faced in today's competitive business climate. The Year 2000 seminar provided guidance to customers on this timely important topic. Our commitment to this portion of the marketplace is very strong. At year end we had 25 commercial lending officers on staff, with an average experience level of 20 years.

The Retail Division originated $87 million in residential mortgage loans in 1998, as compared to $43 million for 1997. Of this total, $65 million was sold into the secondary market, generating nearly $1.5 million in gains. Consumer loans outstanding grew by about $11 million or 9 percent, in

1998. The Bank introduced a "lease look-alike" product to compete with the lease market, and also a software product facilitating preapproval of credit cards and personal lines of credit.

With the introduction of the Executive and Professional Program, business customers can enjoy the benefits of housing all of their accounts in one bank, with the assurance of knowing that their banking officer will be able to expertly and expeditiously assist them. A unique new product, the Budget Saver auto loan was developed and has been enthusiastically received by consumers and auto dealers. The Direct Banking Center responds to nearly 200 customers each day and offers personal service. Our brokerage services continued to be used by our customers who want to buy/sell stocks, bonds, mutual investments and other non-insured investment needs. Income increased over 74 percent in 1998. Customers appreciate the convenience of investing where they are known by name and receive friendly service from knowledgeable and experienced professionals. The Investor's Weekly account was enhanced and experienced strong deposit growth of 68 percent in 1998. This account is a premier product for our customers who want high money market yields, convenient access to funds, security of FDIC Insurance up to $100,000, no fees, and ease of use. Products, specifically tailored for our customers, with emphasis on providing the service of a hometown bank, are utmost in our thoughts as we continue to develop the most beneficial groupings.

Trust assets under management increased 16 percent in 1998 to $725 million. We recognize that investors today face a highly complex investment environment. Many providers of investment management and trust services have grown larger, more inflexible, impersonal and distant. Our approach to providing financial services is uncommon, but traditional. We work to build a personal relationship with customers on a local level, and deliver competitive investment results, which allow our clients to achieve their overall financial goals. In doing this we sponsored a Valentine Party for our retired friends, a Leading Ladies Luncheon, several professional receptions in our communities, investment breakfasts, and business after hours receptions. The Leading Ladies highly successful program is designed and tailored to provide an innovative financial program for the bank's female customers.

Charles E. Niemier and M. Scott Welch were elected to the Lakeland Financial Corporation Board of Directors. Mr. Niemier is a graduate of Indiana University and Valparaiso University where he serves as a Trustee. He is Senior Vice President of Biomet, Inc. Mr. Welch, CEO of Welch Packaging Group and President of Elkhart Container, holds a BS degree in psychology from Depauw University. He serves on the Elkhart General Hospital Board and both the Elkhart and Indiana Chambers of Commerce. They replace Board members Joseph P. Prout and J. Alan Morgan who retired after 27 years and 24 years respectively of service to the Bank. Their leadership was appreciated and will be missed.

D. Jean Northenor was promoted to Executive Vice President, with principal responsibilities in the human resource, marketing, and facilities area. She joined the Bank in 1983 after completing 12 years in Kosciusko County government, eight as the elected county auditor.

In 1999, we will open our first office in Allen County. This market includes Ft. Wayne, the second largest city in the state. Bank consolidation has been very rapid in Ft. Wayne, and we expect that customer acceptance of our Corporation will be positive over the next several years. We continue to evaluate other expansion opportunities throughout northern Indiana, with an emphasis on markets that would be receptive to a local, hometown business philosophy.

The Trust, Discount Brokerage, Investment Services and other operational departments moved into the newly remodeled Trust Building in downtown Warsaw (formerly Kline's Department Store) during the third quarter. The building with state of the art technology has a friendly ambiance with user efficiency.

Since 1872 Lake City Bank has been a symbol of strength, innovation and integrity. We remain responsive to our customers by providing need solving financial products handled by a professional, knowledgeable staff and supported by state of the art technology. Our success and reputation as a leading community bank would not be possible without the dedication and hard work of our employees and the support of our shareholders. We are grateful for this, and optimistic about the future.

Michael L. Kubacki	R.Douglas Grant
President	Chairman

Lakeland Financial Corporation and Lake City Bank Board of Directors

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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, Lakeland Financial Corporation and Lake City Bank
Picture Jerry L. Helvey President, Helvey & Associates, Inc.	Picture Michael L. Kubacki President, Lakeland Financial Corporation and Lake City Bank	Picture Allan J. Ludwig Industrial Developer	Picture Charles E. Niemier Senior Vice President, Biomet, Inc.
Picture Richard L. Pletcher President, Pletcher Enterprises, Inc.	Picture Terry L. Tucker President, Maple Leaf Farms, Inc.	Picture M. Scott Welch Chief Executive Officer, Welch Packaging Group	Picture G.L. White Former President, United Telephone Company of Indiana

LAKELAND FINANCIAL CORPORATION OFFICERS

R. Douglas Grant ....Chairman (Chief Executive Officer through 1998)
Michale L. Kubacki...................President and Chief Executive Officer
D. Jean Northenor ....Executive Vice President
Paul S. Siebenmorgem.................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)

	1998	1997	1996	1995	1994
Interest income	$ 63,667	$ 52,699	$ 45,941	$ 41,944	$ 33,556
Interest expense	36,091	28,060	23,737	21,642	14,887
Net interest income	27,576	24,639	22,204	20,302	18,669
Provision for loan losses	480	269	120	120	795
Net interest income after provision for loan losses	27,096	24,370	22,084	20,182	17,874
Other noninterest income	8,486	6,978	5,396	4,297	4,198
Net gains on sale of real estate mortgages held-for-sale	1,467	545	412	159	177
Net securities gains (losses)	1,256	(19)	(9)	315	(7)
Noninterest expense	(26,491)	(20,414)	(17,935)	(16,244)	(14,092)
Income before income tax expense	11,814	11,460	9,948	8,709	8,150
Income tax expense	3,926	3,920	3,504	3,064	3,024
Net income	$ 7,888	$ 7,540	$ 6,444	$ 5,645	$ 5,126
Average shares outstanding*	5,813,984	5,813,162	5,792,825	5,753,984	5,753,984
Basic earnings per common share*	$ 1.36	$ 1.30	$ 1.11	$ 0.98	$ 0.89
Diluted earnings per common share*	$ 1.36	$ 1.30	$ 1.11	$ 0.98	$ 0.89
Cash dividends declared*	$ 0.33	$ 0.30	$ 0.23	$ 0.19	$ 0.15
Balances at December 31:					
Total assets	$ 978,909	$ 796,478	$ 656,551	$ 568,579	$ 496,963
Total deposits	$ 739,347	$ 612,992	$ 496,553	$ 431,934	$ 396,740
Long-term borrowings	$ 21,386	$ 25,367	$ 23,531	$ 17,432	$ 17,432
Guaranteed preferred beneficial interests in Company's subordinated debentures	$ 19,238	$ 19,211	$ 0	$ 0	$ 0
Total stockholders' equity	$ 55,156	$ 48,256	$ 42,043	$ 36,754	$ 29,889

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

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

1998	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 16,451	$ 16,366	$ 15,904	$ 14,946
Interest expense	9,344	9,354	9,037	8,356
Net interest income	7,107	7,012	6,867	6,590
Provision for loan losses	120	120	120	120
Noninterest income	3,018	3,020	2,731	2,440
Noninterest expense	6,920	7,059	6,478	6,034
Income tax expense	1,106	981	965	874
Net income	$ 1,979	$ 1,872	$ 2,035	$ 2,002
Basic earnings per common share**	$ 0.34	$ 0.33	$ 0.35	$ 0.34
Diluted earnings per common share**	$ 0.34	$ 0.33	$ 0.35	$ 0.34
Stock and Dividend Information				
Trading range (per share)* **				
Low	$ 16.50	$ 19.00	$ 22.25	$ 23.00
High	$ 20.00	$ 24.50	$ 29.00	$ 34.00
Dividends declared (per share) **	$ 0.09	$ 0.09	$ 0.08	$ 0.07

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**	$ 0.28	$ 0.32	$ 0.38	$ 0.32
Diluted earnings per common share**	$ 0.28	$ 0.32	$ 0.38	$ 0.32
Stock and Dividend Information				
Trading range (per share)* **				
Low	$ 23.00	$ 17.75	$ 16.88	$ 15.38
High	$ 24.50	$ 24.50	$ 17.88	$ 17.50
Dividends declared (per share)**	$ 0.08	$ 0.07	$ 0.08	$ 0.07

* The trading range for the first three quarters of 1997 is the bid-asked prices as reported by the market makers for the Company's common stock. 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. The trading ranges for 1998 are the high and low as obtained from the Nasdaq Stock Market.

** Per share data has been adjusted for a 2-for-1 stock split on April 30, 1998.

Consolidated Balance Sheets (in thousands except for share data)

December 31	1998	1997
ASSETS		
Cash and due from banks	$ 45,933	$ 45,317
Short-term investments	15,575	4,445
Total cash and cash equivalents	61,508	49,762
Securities available-for-sale (carried at fair value)	327,658	84,599
Securities held-to-maturity (fair value of $0 at 1998 and $166,079 at 1997)	0	163,559
Real estate mortgages held-for-sale	3,796	1,516
Total loans	538,496	458,634
Less allowance for loan losses	5,510	5,308
Net loans	532,986	453,326
Land, premises and equipment, net	26,370	23,108
Accrued income receivable	5,669	4,915
Intangible assets	11,453	9,649
Other assets	9,469	6,044
Total assets	$ 978,909	$ 796,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	$ 118,361	$ 92,467
Interest bearing deposits	620,986	520,525
Total deposits	739,347	612,992
Short-term borrowings		
Federal funds purchased	0	14,650
Securities sold under agreements to repurchase	110,163	65,467
U.S. Treasury demand notes	1,527	4,000
Other short-term borrowings	24,000	0
Total short-term borrowings	135,690	84,117
Accrued expenses payable	6,503	5,040
Other liabilities	1,589	1,495
Long-term borrowings	21,386	25,367
Guaranteed preferred beneficial interests in Company's subordinated debentures	19,238	19,211
Total liabilities	923,753	748,222
Commitments, off-balance sheet risks and contingencies		
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value, 5,813,984 shares issued, 5,796,918 outstanding as of December 31, 1998; 5,813,984 shares issued, 5,803,232 outstanding as of December 31, 1997	1,453	1,453
Additional paid-in capital	8,537	8,537
Retained earnings	43,652	37,766
Unrealized net gain on securities available-for-sale	1,848	685
Treasury stock, at cost	(334)	(185)
Total stockholders' equity	55,156	48,256
Total liabilities and stockholders' equity	$ 978,909	$ 796,478

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	1998	1997	1996
NET INTEREST INCOME			
Interest and fees on loans			
Taxable	$ 44,225	$ 38,265	$ 32,724
Tax-exempt	194	228	246
Interest and dividends on securities			
Taxable	16,416	12,472	11,348
Tax-exempt	2,313	1,431	1,378
Interest on short-term investments	519	303	245
Total interest income	63,667	52,699	45,941
Interest on deposits	28,154	21,183	18,411
Interest on borrowings			
Short-term	4,724	4,921	4,213
Long-term	3,213	1,956	1,113
Total interest expense	36,091	28,060	23,737
NET INTEREST INCOME	27,576	24,639	22,204
Provision for loan losses	480	269	120
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,096	24,370	22,084
NONINTEREST INCOME			
Trust income	1,205	1,188	881
Service charges on deposits	4,004	3,369	2,809
Other income	3,277	2,421	1,706
Net gains on the sale of real estate mortgages held-for-sale	1,467	545	412
Net securities gains (losses)	1,256	(19)	(9)
Total noninterest income	11,209	7,504	5,799
NONINTEREST EXPENSE			
Salaries and employee benefits	14,076	11,317	9,570
Net occupancy expense	1,866	1,397	1,339
Equipment costs	2,205	1,747	1,616
Other expense	8,344	5,953	5,410
Total noninterest expense	26,491	20,414	17,935
INCOME BEFORE INCOME TAX EXPENSE	11,814	11,460	9,948
Income tax expense	3,926	3,920	3,504
NET INCOME	$ 7,888	$ 7,540	$ 6,444
AVERAGE COMMON SHARES OUTSTANDING	5,813,984	5,813,162	5,792,825
BASIC EARNINGS PER COMMON SHARE	$ 1.36	$ 1.30	$ 1.11
DILUTED EARNINGS PER COMMON SHARE	$ 1.36	$ 1.30	$ 1.11

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)

Year Ended December 31	1998		1997		1996	
COMMON STOCK						
Balance at beginning of the period	$ 1,453		$ 1,448		$ 1,438	
Issued shares of previously authorized, unissued stock (10,000 - 1997; 10,000 - 1996)	0		5		10	
Balance at end of the period	1,453		1,453		1,448	
ADDITIONAL PAID-IN CAPITAL						
Balance at beginning of the period	8,537		8,232		7,827	
Issued shares of previously authorized, unissued stock (10,000 - 1997; 10,000 - 1996)	0		305		405	
Balance at end of the period	8,537		8,537		8,232	
RETAINED EARNINGS						
Balance at beginning of the period	37,766		31,967		26,858	
Net income	7,888	$ 7,888	7,540	$ 7,540	6,444	$ 6,444
Cash dividends declared ($.33, $.30 and $.23) Per share	(2,002)		(1,741)		(1,335)	
Balance at end of the period	43,652		37,766		31,967	
UNREALIZED NET GAIN ON SECURITIES AVAILABLE-FOR-SALE						
Balance at beginning of the period	685		396		631	
Unrealized gain (loss) on available-for-sale securities arising during the period	(573)		289		(235)	
Reclassification adjustments for accumulated (gains) losses included in net income	(759)		0		0	
Cumulative effect of adopting SFAS No. 133	2,495		0		0	
Other comprehensive income (net of taxes $762, $190 and [$154])	1,163	1,163	289	289	(235)	(235)
Balance at end of the period	1,848		685		396	
Total comprehensive income		$ 9,051		$ 7,829		$ 6,209
TREASURY STOCK						
Balance at beginning of the period	(185)		0		0	
Acquisition of treasury stock	(149)		(185)		0	
Balance at end of the period	(334)		(185)		0	
TOTAL STOCKHOLDERS' EQUITY	$ 55,156		$ 48,256		$ 42,043	

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

Consolidated Statements of Cash Flows (in thousands)

Year Ended December 31	1998	1997	1996
Cash flows from operating activities			
Net income	$ 7,888	$ 7,540	$ 6,444
Adjustments to reconcile net income to net cash from operating activities			
Depreciation	1,782	1,393	1,277
Provision for loan losses	480	269	120
Write down of other real estate owned	0	19	20
Amortization of intangible assets	942	26	0
Loans originated for sale	(65,425)	(27,426)	(27,599)
Net (gain) loss on sale of loans	(1,467)	(545)	(412)
Proceeds from sale of loans	64,612	27,350	27,261
Net (gain) loss on sale of premises and equipment	(40)	11	3
Net (gain) loss on sale of securities available-for-sale	(1,257)	0	0
Net loss on calls of securities held-to-maturity	1	19	9
Net securities amortization	1,379	23	256
Increase (decrease) in taxes payable	(1,207)	(217)	237
Increase in income receivable	(754)	(661)	(251)
Increase in accrued expenses payable	949	224	360
(Increase) decrease in other assets	(1,769)	459	(698)
Increase in other liabilities	62	427	164
Total adjustments	(1,712)	1,371	747
Net cash from operating activities	6,176	8,911	7,191
Cash flows from investing activities			
Proceeds from sale of securities available-for-sale	65,404	0	0
Proceeds from maturities and calls of securities held-to-maturity	45,787	14,557	8,784
Proceeds from maturities and calls of securities available-for-sale	32,980	26,100	14,130
Purchases of securities available-for-sale	(89,948)	(28,315)	(14,429)
Purchases of securities held-to-maturity	(131,919)	(52,946)	(20,247)
Net (increase) decrease in total loans	(80,809)	(53,286)	(54,934)
Proceeds from sales of land, premises and equipment	530	0	0
Purchases of land, premises and equipment	(3,950)	(5,464)	(3,558)
Net proceeds (payments) from acquisitions	30,020	58,889	0
Net cash from investing activities	(131,905)	(40,465)	(70,254)
Cash flows from financing activities			
Net increase in total deposits	92,034	21,257	64,619
Proceeds from short-term borrowings	4,740,920	889,826	849,944
Payments on short-term borrowings	(4,689,347)	(894,089)	(838,695)
Proceeds from long-term borrowings	20,050	10,000	14,118
Payments on long-term borrowings	(24,031)	(8,163)	(8,019)
Dividends paid	(2,002)	(1,741)	(1,335)
Proceeds from sale of common stock	0	310	415
Net proceeds from issuance of guaranteed preferred beneficial interests in Company's subordinated debentures	0	19,222	0
Purchase of treasury stock	(149)	(185)	0
Net cash from financing activities	137,475	36,437	81,047
Net increase in cash and cash equivalents	11,746	4,883	17,984
Cash and cash equivalents at beginning of the year	49,762	44,879	26,895
Cash and cash equivalents at end of year	$ 61,508	$ 49,762	$ 44,879
Cash paid during the year for:			
Interest	$ 35,228	$ 27,921	$ 23,239
Income taxes	$ 3,610	$ 3,918	$ 3,420
Securities transferred from held-to-maturity to available-for-sale	$ 249,087	$ 0	$ 0
Loans transferred to other real estate	$ 683	$ 284	$ 334

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

Notes to Consolidated Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation:

The consolidated financial statements include Lakeland Financial Corporation and its wholly-owned subsidiaries, Lake City Bank and Lakeland Capital Trust, together referred to as the "Company". Intercompany transactions and balances are eliminated in consolidation.

The Company provides financial services through its subsidiary, Lake City Bank (the Bank), a full-service commercial bank with 42 branch offices in fourteen counties in northern Indiana. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and consumer loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Other financial instruments which potentially represent concentrations of credit risk include deposit accounts in other financial institutions.

Use of Estimates:

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

Cash Flows:

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

Securities:

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

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

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

Loans:

Loans are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Loans held for sale are reported at the lower of cost or market, on an aggregate basis.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt. All unpaid accrued interest is reversed and interest income is subsequently recorded only to the extent cash payments are received.

Allowance for Loan Losses:

The allowance for loan losses is a valuation allowance for probable credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. A loan is charged-off as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur.

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

Foreclosed Assets:

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

Land, Premises and Equipment:

Land, premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on both straight-line and accelerated methods over the useful lives of the assets. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

Servicing Rights:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangibles:

Purchased intangible assets, primarily goodwill and core deposit value, are recorded at cost and amortized over the estimated life. Goodwill amortization is straight-line over 15 years, and core deposit amortization is accelerated over 12 years.

Repurchase Agreements:

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

Benefit Plans:

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

Stock Compensation:

There are 600,000 shares of common stock reserved for which stock options may be granted to employees of Lakeland Financial Corporation, its subsidiaries and Board of Directors. These are accounted for under APB No. 25. Pro forma disclosures of net income and earnings per share are shown using the fair value method of SFAS No. 123 to measure expense for options granted using an option pricing model to estimate fair value.

Income Taxes:

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

Financial Instruments:

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

Earnings Per Common Share:

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements. The common shares outstanding for the Stockholders' Equity section of the Balance Sheet reflect the acquisition of 17,066 shares of Lakeland Financial Corporation common stock to offset a liability for a directors' deferred compensation plan. These shares are treated as outstanding when computing the weighted-average common shares outstanding for the calculation of both basic and diluted earnings per share.

Comprehensive Income:

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale which are also recognized as separate components of equity. The accounting standard that requires reporting comprehensive income first applies for 1998, with prior information restated to be comparable.

Loss Contingencies:

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

Dividend Restriction:

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

Fair Value of Financial Instruments:

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

Industry Segments:

Internal financial information is primarily reported and aggregated in the line of business of banking.

Reclassifications:

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

NOTE 2 - SECURITIES

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

	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
	(in thousands)			
Securities available-for-sale at December 31, 1998				
U.S. Treasury securities	$ 38,938	$ 751	$ (168)	$ 39,521
U.S. Government agencies and corporations	1,990	40	0	2,030
Mortgage-backed securities	225,741	1,086	(913)	225,914
State and municipal securities	56,924	2,312	(124)	59,112
Other debt securities	1,005	76	0	1,081
Total securities available-for-sale at December 31, 1998	$ 324,598	$ 4,265	$ (1,205)	$ 327,658
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

Information regarding the amortized cost and fair value of debt securities by maturity as of December 31, 1998, 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, 1998	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 7,210	$ 7,277
Due after one year through five years	35,287	35,922
Due after five years through ten years	5,968	6,468
Due after ten years	50,392	52,077
	98,857	101,744
Mortgage-backed securities	225,741	225,914
Total debt securities	$ 324,598	$ 327,658

NOTE 2 - SECURITIES (continued)

Security proceeds, gross gains and gross losses for 1998, 1997 and 1996 were as follows:

	1998	1997	1996
	(in thousands)		
Sales and calls of securities available-for-sale			
Proceeds	$ 66,197	$ 100	$ 650
Gross gains	1,257	0	0
Gross losses	0	0	0
Calls of securities held-to-maturity			
Proceeds	$ 1,532	$ 638	$ 802
Gross gains	0	0	0
Gross losses	(1)	19	9

Securities with carrying values of $143,450,000 and $122,482,000 were pledged as of December 31, 1998 and 1997, as collateral for deposits of public funds, securities sold under agreements to repurchase and for other purposes as permitted or required by law.

NOTE 3 - LOANS

Total loans outstanding as of December 31, 1998 and 1997, consisted of the following:

	1998	1997
	(in thousands)	
Commercial and industrial loans	$ 301,682	$ 237,132
Agri-business and agricultural loans	45,043	35,820
Real estate mortgage loans	57,580	62,279
Real estate construction loans	2,975	3,089
Installment loans and credit cards	131,216	120,314
Total loans	$ 538,496	$ 458,634

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

The following is an analysis of the allowance for loan losses for 1998, 1997 and 1996:

	1998	1997	1996
	(in thousands)		
Balance, January 1	$ 5,308	$ 5,306	$ 5,472
Provision for loan losses	480	269	120
Loans charged-off	416	359	368
Recoveries	138	92	82
Net loans charged-off	278	267	286
Balance, December 31	$ 5,510	$ 5,308	$ 5,306

Nonaccrual loans at December 31, 1998, 1997 and 1996, totaled $0, $1,058,000 and $384,000. Interest lost on nonaccrual loans was approximately $42,000, $44,000 and $35,000 for 1998, 1997 and 1996. Loans renegotiated as troubled debt restructuring totaled $1,281,000 and $1,377,000 as of December 31, 1998 and 1997. Interest income of $84,000, $92,000 and $85,000 was recognized in 1998, 1997 and 1996. Had these loans been performing under the original contract terms, an additional $47,000 would have been reflected in interest income during 1998, $50,000 in 1997 and $44,000 in 1996. The Company is not committed to lend additional funds to debtors whose loans have been modified. At December 31, 1998, 1997 and 1996, the Company had no loans meeting the definition of impaired. One loan was classified as impaired during 1998, but was repaid prior to year-end.

NOTE 5 - SECONDARY MORTGAGE MARKET ACTIVITIES Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were $106,392,000 and $68,028,000 at December 31, 1998 and 1997, respectively. Net loan servicing income was $11,000, $98,000 and $96,000 for 1998, 1997 and 1996. Information on mortgage servicing rights follows:

	1998	1997

	(in thousands)	
Beginning of year	$ 425	$ 205
Originations	754	268
Amortization	(171)	(48)
End of year	$ 1,008	$ 425

Notes to Consolidated Financial Statements (continued)

NOTE 6 - LAND, PREMISES AND EQUIPMENT, NET

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

	1998	1997
	(in thousands)	
Land	$ 6,274	$ 5,953
Premises	18,269	15,915
Equipment	13,059	11,227
Total cost	37,602	33,095
Less accumulated depreciation	11,232	9,987
Land, premises and equipment, net	$ 26,370	$ 23,108

NOTE 7 - DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of $100,000, was approximately $153,991,000 and $108,497,000 at December 31, 1998 and 1997.

At December 31, 1998, the scheduled maturities of time deposits were as follows:

	Amount
	(in thousands)
Maturing in 1999	$ 425,808
Maturing in 2000	47,775
Maturing in 2001	13,619
Maturing in 2002	7,029
Maturing in 2003	4,292
Thereafter	1,634
Total time deposits	$ 500,157

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 1998 and 1997 is as follows:

	1998	1997
	(in thousands)	
Average balance during the year	$ 84,157	$ 83,732
Average interest rate during the year	5.19%	5.45%
Maximum month-end balance during the year	$ 110,163	$ 98,917
Securities underlying the agreements at year-end		
Amortized cost	$ 112,301	$ 66,183
Fair value	$ 113,078	$ 67,258

			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	$ 68,322	4.21%	$ 523	$ 520	$ 68,795	$ 69,158
1 to 30 days	4,016	5.08	606	616	3,579	3,580
31 to 90 days	7,600	5.60	1,615	1,633	6,218	6,222
Over 90 days	30,225	5.83	22,000	22,337	8,965	9,012
Total	$ 110,163	4.78%	$ 24,744	$ 25,106	$ 87,557	$ 87,972

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, 1998, 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:

	1998	1997
	(in thousands)	
Federal Home Loan Bank of Indianapolis Notes, Variable Rate, Due April 27, 1998	$ 0	$ 10,000
Federal Home Loan Bank of Indianapolis Notes, 5.92%, Due December 7, 1998	0	4,000
Federal Home Loan Bank of Indianapolis Notes, 5.50%, Due December 28, 1998	0	10,000
Federal Home Loan Bank of Indianapolis Notes, Variable Rate, Due April 27, 1999	10,000	0
Federal Home Loan Bank of Indianapolis Notes, 5,25%, Due December 28, 2001	10,000	0
Federal Home Loan Bank of Indianapolis Notes, 6.15%, Due June 24, 2003	1,300	1,300
Federal Home Loan Bank of Indianapolis Notes, 6.15%, Due January 15, 2018	50	0
Capital Leases	36	67
Total	$ 21,386	$ 25,367

All notes require monthly interest payments and were secured by residential real estate loans and securities with a carrying value of $179,766,000 at December 31, 1998. At December 31, 1998, the Company owned $2,844,100 of Federal Home Loan Bank (FHLB) stock, which also secures debts to the FHLB. The capital leases had original terms of approximately three years and require monthly payments. In addition to the long-term borrowings, the Company has a $24 million variable rate FHLB note due June 6, 1999. This note is classified as a short-term borrowing in the financial statements. The Company is authorized to borrow up to $100 million from the FHLB.

NOTE 10 - GUARANTEED PREFERRED BENEFICIAL INTERESTS

In September 1997, Lakeland Capital Trust (Lakeland Trust) completed a public offering of 2 million shares of cumulative trust preferred securities (Preferred Securities) with a liquidation preference of $10 per security. The proceeds of the offering were loaned to the Company in exchange for subordinated debentures with terms similar to the Preferred Securities. The sole assets of Lakeland Trust are the subordinated debentures of the Company and payments thereunder. The subordinated debentures and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of Lakeland Trust under the Preferred Securities. Distributions on the securities are payable quarterly at the annual rate of 9% of the liquidation preference and are included in interest expense in the consolidated financial statements. These securities are considered as Tier I capital (with certain limitations applicable) under current regulatory guidelines. As of December 31, 1998, 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:

	1998	1997
	(in thousands)	
Change in benefit obligation:		
Beginning benefit obligation	$ 1,949	$ 1,544
Service cost	177	165
Interest cost	149	130
Actuarial gain	276	177
Benefits paid	(143)	(67)
Ending benefit obligation	2,408	1,949
Change in plan assets (primarily money market funds and equity and fixed income investments), at fair value:		
Beginning plan assets	1,640	1,151
Actual return	(68)	306
Employer contribution	535	250
Benefits paid	(143)	(67)
Ending plan assets	1,964	1,640
Funded status	(444)	(309)
Unrecognized net actuarial loss	466	2
Unrecognized prior service cost	(24)	(27)

Prepaid (accrued) benefit cost	$ (2)	$ (334)

NOTE 11 - EMPLOYEE BENEFIT PLANS (continued)

Net pension expense includes the following:

	1998	1997	1996
		(in thousands)	
Service cost	$ 190	$ 178	$ 162
Interest cost	144	120	105
Expected return on plan assets	(133)	(306)	(90)
Recognized net actuarial (gain) loss	2	197	(9)
Net pension expense	$ 203	$ 189	$ 168

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

	1998	1997	1996
Weighted average discount rate	6.75%	7.25%	7.75%
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 $401,000, $393,000 and $532,000 in 1998, 1997 and 1996.

NOTE 12 - OTHER EXPENSE

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

	1998	1997	1996
		(in thousands)	
Data processing fees and supplies	$ 1,605	$ 1,151	$ 1,098
Corporate and business development	1,172	1,034	932
Office supplies	488	633	641
Telephone and postage	1,377	833	729
Regulatory fees and FDIC insurance	138	122	57
Miscellaneous	3,564	2,180	1,953
Total other expense	$ 8,344	$ 5,953	$ 5,410

NOTE 13 - INCOME TAXES

Income tax expense consisted of the following:

	1998	1997	1996
		(in thousands)	
Current federal	$ 2,829	$ 2,881	$ 2,503
Deferred federal	54	100	107
Current state	982	906	808
Deferred state	61	33	86
Total income tax expense	$ 3,926	$ 3,920	$ 3,504

Income tax expense (credit) included $498,000, $(8,000) and $(3,000) applicable to security transactions for 1998, 1997 and 1996. 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 were as follows:

	1998	1997	1996
		(in thousands)	
Income taxes at statutory federal rate	$ 4,017	$ 3,896	$ 3,382
Increase (decrease) in taxes resulting from:			
Tax exempt income	(839)	(554)	(540)
Nondeductible expense	192	135	140
State income tax, net of federal tax effect	688	661	590
Net operating loss, Gateway	(29)	(29)	(29)
Tax credits	(33)	(23)	(22)
Other	(70)	(166)	(17)
Total income tax expense	$ 3,926	$ 3,920	$ 3,504

NOTE 13 - INCOME TAXES (continued)

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

	1998		1997	
	Federal	State	Federal	State
	(in thousands)			
Deferred tax assets				
Bad debts	$ 1,809	$ 452	$ 1,528	$ 430
ORE	0	0	97	24
Pension and deferred compensation liability	460	115	440	110
Net operating loss carryforward	317	0	346	0
Other	161	41	75	20
	2,747	608	2,486	584
Deferred tax liabilities				
Accretion	103	26	148	37
Depreciation	372	93	284	71
Mortgage servicing rights	343	86	145	36
State taxes	107	0	128	0
Leases	165	41	169	42
Deferred loan fees	186	46	82	20
Other	0	0	5	1
	1,276	292	961	207
Valuation allowance	172	0	172	0
Net deferred tax asset	$ 1,299	$ 316	$ 1,353	$ 377

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 $1,212,000 and $450,000 for 1998 and 1997.

NOTE 14 - ACQUISITIONS

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

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

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

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:

	(in thousands)
Assets	
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

NOTE 15 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates in 1998 were as follows:

	(in thousands)
Beginning balance	$ 18,378
New loans and advances	64,226
Effect of changes in related parties	(4,216)
Repayments	(57,384)
Ending balance	$ 21,004

Deposits from principal officers, directors, and their affiliates at year-end 1998 and 1997 were $9,579,000 and $7,852,000.

NOTE 16 - STOCK OPTIONS

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

	1998	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of the year	0	$ 0.00
Granted	195,145	24.60
Exercised	0	0.00
Forfeited	6,210	24.38
Outstanding at end of the year	188,935	$ 24.60
Options exercisable at end of the year	925	$ 28.00
Weighted-average fair value of options granted during the year		$ 9.80

Options outstanding at year-end 1998 were as follows:

	Outstanding		Exercisable	
	Number	Weighted-Average Remaining Contractual Life	Number	Weighted-Average Exercise Price
Range of exercise prices				
$22.40 - $25.20	167,660	9.3	0	
$25.21 - $28.00	21,275	9.0	925	$ 28.00
Outstanding at year-end	188,935	9.3	925	$ 28.00

Had compensation cost for stock options been measured using SFAS No. 123, net income and earnings per common share would have been the pro forma amounts indicated below. The pro forma effect may increase in the future if more options are granted.

	1998
Net income (in thousands) as reported	$ 7,888
Pro forma net income (in thousands)	7,752
Basic earnings per common share as reported	$ 1.36
Pro forma basic earnings per common share	$ 1.30
Diluted earnings per common share as reported	$ 1.36
Pro forma diluted earnings per common share	$ 1.30

NOTE 16 - STOCK OPTIONS (continued)

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

	1998
Risk-free interest rate	5.53%
Expected option life	4.91 years
Expected price volatility	40.75%
Dividend yield	1.44%

NOTE 17 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS The Company and Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 1998 and 1997, that the Company and Bank meet all capital adequacy requirements to which they are subject. As of December 31, 1998, the most recent notification from the federal regulators categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company's or Bank's category.

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 1998						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 67,264	10.83%	>=$ 49,703	>= 8.00%	>=$ 62,129	>= 10.00%
Bank	$ 66,535	10.71%	>=$ 49,687	>= 8.00%	>=$ 62,109	>= 10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 59,524	9.58%	>=$ 24,851	>= 4.00%	>=$ 37,277	>= 6.00%
Bank	$ 61,025	9.83%	>=$ 24,844	>= 4.00%	>=$ 37,265	>= 6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 59,524	6.39%	>=$ 37,286	>= 4.00%	>=$ 46,607	>= 5.00%
Bank	$ 61,025	6.55%	>=$ 37,290	>= 4.00%	>=$ 46,612	>= 5.00%
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%

NOTE 18 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table contains the estimated fair values and the related carrying values of the Company's financial instruments at December 31, 1998 and 1997. Items which are not financial instruments are not included.

	1998		1997	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Assets:				
Cash and cash equivalents	$ 61,508	$ 61,508	$ 49,762	$ 49,762
Real estate mortgages held-for-sale	3,796	3,796	1,516	1,533
Securities available-for-sale	327,658	327,658	84,599	84,599
Securities held-to-maturity	0	0	163,559	166,079
Loans, net	532,986	537,223	453,326	450,542
Accrued income receivable	5,669	5,669	4,915	4,915
Mortgage servicing rights	1,008	1,008	425	425
Liabilities:				
Certificates of deposit	(500,157)	(502,823)	(393,620)	(394,543)
All other deposits	(239,190)	(239,190)	(219,372)	(219,372)
Securities sold under agreements to repurchase	(110,163)	(111,311)	(65,467)	(65,557)
Other short-term borrowings	(25,527)	(25,527)	(18,650)	(18,650)
Long-term debt	(21,386)	(21,568)	(25,367)	(25,442)
Guaranteed preferred beneficial interests in Company's subordinated debentures	(19,238)	(22,500)	(19,211)	(20,187)
Accrued expenses payable	(6,503)	(6,503)	(5,040)	(5,040)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 1998 and 1997. 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, 1998 and 1997, 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, 1998 and 1997, 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, 1998 and 1997, 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, 1998 and 1997, should not necessarily be considered to apply at subsequent dates.

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

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

During the normal course of business, the Company becomes a party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These financial instruments include commitments to make loans and open-ended revolving lines of credit. Amounts as of December 31, 1998 and 1997, were as follows:

	1998		1997	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commercial loan lines of credit	$ 16,783	$ 124,975	$ 6,503	$ 102,822
Commercial loan standby letters of credit	0	14,186	0	11,959
Real estate mortgage loans	4,473	908	1,185	586
Real estate construction mortgage loans	0	2,237	0	2,211
Credit card open-ended revolving lines	5,514	0	5,161	0
Home equity mortgage open-ended revolving lines	0	29,178	0	26,548

Consumer loan open-ended revolving lines	0	4,185	0	3,877
Total	$ 26,770	$ 175,669	$ 12,849	$ 148,003

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

At December 31, 1998 and 1997, the range of interest rates for commercial loan commitments with a fixed rate was 4.92% to 12.50% and 7.86% to 12.50%. The range of interest rates for commercial loan commitments with variable rates was 7.00% to 11.75% and 7.50% to 12.50% at December 31, 1998 and 1997. The index on variable rate commercial loan commitments is principally the Company's base rate.

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

The Company's exposure to credit losses in the event of nonperformance is represented by the contractual amount of the commitments. Management does not expect any 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 20 - PARENT COMPANY STATEMENTS

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

CONDENSED BALANCE SHEETS

	December 31	
	1998	1997
	(in thousands)	
ASSETS		
Deposits with Lake City Bank	$ 113	$ 1,420
Investment in subsidiaries	75,045	67,013
Other assets	1,108	577
Total assets	$ 76,266	$ 69,010
LIABILITIES		
Dividends payable and other liabilities	$ 491	$ 135
Subordinated debt	20,619	20,619
STOCKHOLDERS' EQUITY	55,156	48,256
Total liabilities and stockholders' equity	$ 76,266	$ 69,010

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31		
	1998	1997	1996
	(in thousands)		
Dividends from Lake City Bank	$ 2,182	$ 982	$ 1,091
Interest on deposits and repurchase agreements, Lake City Bank	6	24	24
Equity in undistributed income of subsidiaries	6,870	7,085	5,353
Interest expense on subordinated debt	1,800	655	0
Miscellaneous expense	134	242	17
INCOME BEFORE INCOME TAXES	7,124	7,194	6,451
Income tax expense (benefit)	(764)	(346)	7
NET INCOME	$ 7,888	$ 7,540	$ 6,444

NOTE 20 - PARENT COMPANY STATEMENTS (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	1998	1997	1996
		(in thousands)	
Cash flows from operating activities			
Net income	$ 7,888	$ 7,540	$ 6,444
Adjustments to net cash from operating activities			
Equity in undistributed income of subsidiaries	(6,870)	(7,085)	(5,353)
Other changes	(175)	(770)	70
Net cash from operating activities	843	(315)	1,161
Cash flows from investing activities	0	(17,283)	(251)
Cash flows from financing activities	(2,150)	19,003	(920)
Net increase (decrease) in cash and cash equivalents	(1,307)	1,405	(10)
Cash and cash equivalents at beginning of the year	1,420	15	25
Cash and cash equivalents at end of the year	$ 113	$ 1,420	$ 15

NOTE 21 - EARNINGS PER SHARE

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

	1998	1997	1996
Basic earnings per common share			
Net income	$ 7,888	$ 7,540	$ 6,444
Weighted-average common shares outstanding	5,813,984	5,813,162	5,792,825
Basic earnings per common share	$ 1.36	$ 1.30	$ 1.11
Diluted earnings per common share			
Net income	$ 7,888	$ 7,540	$ 6,444
Weighted-average common shares outstanding for			
basic earnings per common share	5,813,984	5,813,162	5,792,825
Add: Dilutive effect of assumed exercises of stock options	0	0	0
Average shares and dilutive potential common shares	5,813,984	5,813,162	5,792,825
Diluted earnings per common share	$ 1.36	$ 1.30	$ 1.11

All stock options for shares of common stock were not considered in computing diluted earnings per common share for 1998 because they were antidilutive.

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, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 1998, 1997 and 1996. 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, 1998 and 1997, and the results of their operations and their cash flows for the years ended December 31, 1998, 1997 and 1996, in conformity with generally accepted accounting principles.

Crowe, Chizek and Company LLP

South Bend, Indiana
January 15, 1999

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

FINANCIAL CONDITION

Growth and Expansion

Company growth continues to be strong. Through branch acquisitions and establishing de novo offices, the Company has added nineteen new offices in the last five years. The Company's primary market area now comprises 14 counties in north central Indiana being served by 42 offices. Total assets totaled $979 million at year-end 1998, representing a 22.9 percent increase over year-end 1997. This exceptional growth reflects economic vitality in the markets we serve and the benefits we derive from being a locally owned and operated community bank. The rapid consolidation of banks in northern Indiana has resulted in greater customer dissatisfaction with the service provided by large regional banks. This dissatisfaction has contributed greatly to the Company's recent loan and deposit growth. In 1999, the Company will open its first office in Allen County. This market includes Ft. Wayne, the second largest city in the state. Bank consolidation has been very rapid in Ft. Wayne, and we expect that customer acceptance of our Company will be positive over the next several years. The Company continues to evaluate other expansion opportunities throughout northern Indiana, with an emphasis on markets that would be receptive to our local, hometown business philosophy.

Liquidity

Management maintains a liquidity position to ensure funding is available to provide for loan demand and deposit run-off that occurs in the normal course of business. The Company relies on various funding sources in order to meet these demands. Primary sources include increases in deposit accounts and cash flows from loan payments and the securities portfolio. The cash flow from the securities portfolio alone, given current prepayment assumptions, is anticipated to be approximately $63.7 million in 1999.

In addition to the primary sources of funds, management can draw upon several secondary sources to meet any unusual demands including potential demand created by customer concerns about Year 2000 issues. The Company has been taking the necessary actions to prepare for the Year 2000, but management is aware there may possibly be additional demands for funds, especially in the later part of 1999, if customers take precautionary measures for the Year 2000. The Company has $58 million in Federal fund lines with correspondent banks, which can be used to meet immediate needs. The Company has also been authorized to borrow up to $100 million at the Federal Home Loan Bank of Indianapolis. On October 1, 1998, the Company transferred all securities in its held-to-maturity (HTM) portfolio to its available-for-sale (AFS) portfolio as permitted by the early adoption of SFAS No. 133. This increases the possible sources the Company may access since these securities may be sold to meet any funding demands. All securities in the AFS portfolio are high quality and easily marketable. Approximately 81.5 percent of this portfolio are U.S. Treasury securities, Federal agency securities or mortgage-backed securities directly or indirectly backed by the Federal government. The Company also sells mortgage loans on the secondary market to reduce interest rate risk and as a source of funding.

During 1998, cash and cash equivalents increased $11.7 million to $61,508,000 at December 31, 1998. Part of the increase in the cash and cash equivalents during 1998 was the result of the $92 million increase in deposit accounts which does not include deposits acquired in conjunction with offices acquired from other financial institutions, the small increase in short-term borrowings and cash flows from loan and security payments. The net proceeds from the acquisition of offices from another financial institution in February added approximately $30 million in additional funds. Historically low interest rates generated a significant increase in residential real estate loan demand. This increased activity resulted in proceeds from the sales of loans of $65 million for 1998, as compared to $27 million in 1997. These low rates also provided the Company with an opportunity to sell securities from the AFS portfolio at significant gains. Proceeds from the sales of securities during 1998 were $65 million. The sales of loans and securities accomplished several objectives, providing a source of funds to meet increased funding demands and adding approximately $2.7 million to pre-tax income. Major uses of the funds generated were funding the increases in loans, the purchases of securities and the purchases of fixed assets. Loans increased approximately $80 million during 1998. This increase was net of approximately $63 million of loans originated and sold during 1998. During 1998, $223 million of securities were purchased and approximately $4 million was spent for land, premises and equipment, not including what was added through office acquisitions.

During the year 1997, cash and cash equivalents increased $5 million. In addition to the funds from the payments on loans and the calls and maturities of securities, major sources of funds were the proceeds from sales of loans of $27 million, the proceeds of $59 million from the acquisitions of offices from other financial institutions, and $21 million from the increase in deposit accounts net of deposits obtained through acquisitions. Another major source of funds during 1997 was the $19 million net proceeds from the issuance of guaranteed preferred beneficial interests in the Company's subordinated debentures. Major uses of funds during 1997 were the $53 million increase in loans, purchases of securities totaling $81 million, and $5 million for purchases of land, premises and equipment not including those related to acquisitions from other financial institutions.

During 1996, there was a net increase in cash and cash equivalents of $18 million. The major sources for the increase were $23 million of proceeds from calls and maturities of securities, an increase of $65 million of deposits, and a $17 million increase in total borrowings. The major uses of funds were the $55 million increase in loans, the $35 million for purchases of securities and $4 million for the purchases of land, premises and equipment.

Asset/Liability Management (ALCO) and Securities

The Company's primary market risk exposure is interest rate risk. The Company does not have a material exposure to foreign currency exchange risk, does not own any derivative financial instruments and does not maintain a trading portfolio. The Board of Directors annually reviews and approves the ALCO policy used to manage interest rate risk. This policy sets guidelines for balance sheet structure that protects the Company from excessive net income volatility that could result from changing interest rates. The Company uses 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, 1998, for the next 12 months is a negative 19.6 percent of total assets. The current degree of interest rate exposure is within policy limits.

The following tables provide 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 tables 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 tables 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.

1998 Principal/Notional Amount Maturing in: (Dollars in thousands)

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total	Fair Value 12/31/98
Rate sensitive assets:								
Fixed interest rate loans	$ 117,708	$ 42,340	$ 34,989	$ 18,088	$ 41,387	$ 20,781	$ 275,293	$ 276,230
Average interest rate	8.86%	8.84%	8.70%	8.83%	8.13%	7.83%	8.65%	
Variable interest rate loans	$ 216,002	$ 1,861	$ 1,762	$ 1,615	$ 1,565	$ 40,398	$ 263,203	$ 260,993
Average interest rate	9.67%	7.76%	7.83%	8.02%	8.06%	7.47%	9.28%	
Fixed interest rate securities	$ 69,716	$ 57,082	$ 67,696	$ 27,003	$ 15,946	$ 81,943	$ 319,386	$ 322,446
Average interest rate	6.52%	6.54%	5.88%	6.43%	6.46%	5.65%	6.14%	
Variable interest rate securities	$ 1,658	$ 1,122	$ 777	$ 535	$ 368	$ 752	$ 5,212	$ 5,212
Average interest rate	6.44%	6.43%	6.44%	6.45%	6.46%	6.52%	6.45%	
Other interest-bearing assets	$ 15,575	-	-	-	-	-	$ 15,575	$ 15,575
Average interest rate	4.75%	-	-	-	-	-	4.75%	
Rate sensitive liabilities:								
Noninterest bearing checking	$ 6,143	$ 5,492	$ 994	$ 947	$ 1,385	$ 103,400	$ 118,361	$ 118,361
Average interest rate	-	-	-	-	-	-	-	
Savings & interest bearing checking	$ 16,183	$ 14,618	$ 12,931	$ 11,749	$ 9,432	$ 55,916	$ 120,829	$ 120,829
Average interest rate	1.54%	1.54%	1.54%	1.54%	1.54%	1.70%	1.61%	
Time deposits	$ 425,808	$ 47,775	$ 13,619	$ 7,029	$ 4,292	$ 1,634	$ 500,157	$ 502,823
Average interest rate	5.09%	5.63%	5.68%	6.16%	5.48%	5.94%	5.18%	
Fixed interest rate borrowings	$ 101,139	$ 10,550	$ 10,090	-	$ 1,297	$ 19,238	$ 142,314	$ 146,906
Average interest rate	4.67%	5.90%	5.25%	-	6.15%	9.00%	5.40%	
Variable interest rate borrowings	$ 34,000	-	-	-	-	-	$ 34,000	$ 34,000
Average interest rate	4.96%	-	-	-	-	-	4.96%	

1997 Principal/Notional Amount Maturing in: (Dollars in thousands)

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total	Fair Value 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:								
Noninterest 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%	

Comparision of these tables illustrates the growth the Company experienced during 1998. Increases in time deposits, fixed rate borrowings and variable rate borrowings reflect the growth of the Company's existing offices, a significant increase in repurchase agreements which are fixed rate, short-term variable rate borrowings from the Federal Home Loan Bank and deposits obtained through branch acquisitions. These increases in funding sources were used to finance the increases in the loan portfolio and in the securities portfolios. The increase in loans for 1998 reflect the increases in commercial loans which are short-term in nature. The increases in securities reflect the purchases of primarily fixed rate securities during 1998.

The Company's investment portfolios consist of U.S. Treasuries, agencies, mortgage-backed securities, municipal bonds and corporates. During 1998 purchases primarily consisted of U.S. Treasuries, mortgage-backed securities and municipal bonds. At December 31, 1998, the Company's investment in mortgage-backed securities comprised approximately 69 percent of total securities and consisted of CMOs 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 purchased do not have excessive price, prepayment, extension and original life risk characteristics. The Company uses Bloomberg analytics to evaluate and monitor all purchases. At December 31, 1998, the mortgage securities in the AFS portfolio had a two and two-thirds year average life, with approximately 11 percent price depreciation should rates move up 300 basis points and approximately 5 percent price appreciation should rates move down 300 basis points. As of December 31, 1998, all mortgage securities were 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 had Tier I leverage capital, Tier I risk based capital and Tier II risk based capital ratios of 6.4 percent, 9.6 percent and 10.8 percent at December 31, 1998. All three ratios exceeded 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 14.3 percent, to $55,156,000 as of December 31, 1998, from $48,256,000 as of December 31, 1997. The 1998 growth resulted from the retention of net income of $7,888,000, minus cash dividends declared of $2,002,000, plus the change in the AFS adjustment of $1,163,000, net of tax, less $149,000 for the purchase of treasury stock. The AFS adjustment reflects a 114 basis point decrease in two to five year U. S. Treasury rates during 1998. Included in the change in the AFS adjustment is an increase of $2,495,000 from securities transferred to AFS on October 1, 1998 as permitted by SFAS No. 133. None of these securities transferred to AFS were sold during the fourth quarter of 1998. 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 1997 growth of $6,213,000 resulted from the retention of net income of $7,540,000, minus cash dividends declared of $1,741,000, plus 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. This 1997 AFS adjustment reflected a 42 basis point decrease in three to five year U. S. Treasury rates during 1997.

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, 1998, the allowance for loan losses was $5,510,000 or 1.02 percent of total loans outstanding, compared with $5,308,000 or 1.16 percent of total loans outstanding at December 31, 1997. 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.

As a result of the methodology in determining the adequacy of the allowance for loan losses, the provision for loan losses was $480,000 in 1998 as compared to $269,000 in 1997. The increased provision for loan losses was primarily related to the growth in the loan portfolio, particularly the commercial and agricultural portfolios. The past due accruing loans (90 days or more) and nonaccrual loans continued to be at low levels throughout 1998. At December 31, 1998, loans past due 90 days or more and still accruing were $227,000 and there were no nonaccrual loans. 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.

The continued low levels of nonperforming loans and net charge-offs have permitted the Company to provide modest amounts for the provision for loan losses in recent years. The total provision for loan losses for the last three years was $869,000, which is slightly higher than the total net charge-offs of $831,000 for the same three year period.

At December 31, 1998, 50.1 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 $186 million, or about 48.7 percent, and the concentration of this loan growth in the commercial loan portfolio. Commercial loans comprised 56.0 percent, 51.7 percent and 53.0 percent of the total loan portfolio at December 31, 1998, 1997 and 1996. With this type of loan growth and the concentration in commercial loans, management believes that it is prudent to continue to provide for loan losses at the current levels, especially 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.

RESULTS OF OPERATIONS

1998 vs 1997

In 1998, the Company achieved record earnings of $7,888,000. This is approximately a five percent increase over 1997, and represents the eleventh consecutive year of record earnings. In 1998, total interest income was $63,667,000, an increase of $10,968,000 or 20.8 percent from 1997. Interest income is principally effected by the growth in assets, the composition of assets, the degree of competition and current interest rates. In 1998, both asset growth of 22.9 percent and loan growth of 17.4 percent contributed positively to interest income. The composition of the Company's assets was a major challenge in 1998. In the fourth quarter of 1997 and at the beginning of 1998, the Company had acquired approximately $129.5 million of funding through branch acquisitions in order to meet the future lending needs of current and future customers. These funds were temporarily invested in securities until they are used to fund loan growth. While loan growth was strong in 1998, resulting in a steady improvement in the loan-to-deposit ratio during the year, the Company is still aggressively pursuing good quality commercial and consumer loans to better utilize these funds. A successful effort should strengthen the interest margin in future years. On a less positive note, fierce competition, and a 75 basis point decrease in the prime lending rate, reduced the yield on the loan portfolio by 23 basis points in 1998 versus 1997. With respect to the securities portfolio, a 114 basis point reduction in two-to-five year treasury rates and a flattening of the yield curve, resulted in higher prepayment rates on mortgage related securities, and lower reinvestment rates. The combined impact of this was a 17 basis point reduction in the securities yield. All of these factors resulted in a 31 basis point reduction in the overall yield on earning assets. Total interest expense was $36,091,000 in 1998, an increase of $8,031,000 or 28.6 percent over 1997. The increase was primarily the result of internal growth and deposits acquired in branch acquisitions. The impact of low rates and a flat yield curve were most pronounced on the Company's funding costs. During much of the year, customers shortened their investment horizon. The Company experienced substantial growth in short-term deposits and purchased funds. This type of activity typically reduces average funding costs, since these funds are priced to what is generally the lower end of the yield curve. However, with a flat yield curve, these funds are as costly as long-term funds. This combination resulted in only a three basis point reduction in funding costs. The net impact of these interest income and interest expense trends resulted in net interest income of $27,576,000, an increase of $2,937,000 or 11.9 percent. While margin deterioration is an industry wide phenomenon, economic factors in 1998 accelerated this trend.

Asset quality continued to be very strong. The Company concluded the year absent any nonaccrual or impaired loans. Delinquency rates continued to be very low, and net charge-offs for the year were $278,000 or .06 percent of average daily loans. These quality trends resulted in only a modest amount of expense to be prudently recognized as a provision for loan losses. This $480,000 expense, less 1998 net charge-offs, resulted in a $5,510,000 allowance for loan losses at year-end. This represented 1.02 percent of the loan portfolio. As 1999 begins, loan growth continues to be very strong, and loan growth is one of many factors that are reviewed when determining the amount of loan loss provision expense that should be recognized. Future provisions for loan losses may be increased as the loan portfolios grow or should asset quality deteriorate.

Noninterest income was a primary focus of management during 1998. As the interest margin continues to decline, it becomes important to search for new types of revenue. In 1998, noninterest income totaled $11,209,000. This was a $3,705,000 or 49.4 percent increase over 1997. The Company experienced an 18.8 percent increase in deposit fees. This increase was primarily related to the growth in deposits of $126 million in 1998. Higher deposit service fees were directly related to the growth of transaction accounts. Other exceptional contributors included insurance income and brokerage income. Another major contributor was the gains on the sale of mortgages. For the last five years, the Company has been selling fixed rate mortgages into the secondary market. These sales allow the Company to meet the fixed rate mortgage needs of the many small communities served, while not exposing the Company to unacceptable rate risk. In 1998, thirty-year mortgage rates declined to historically low levels, which increased the volume in the mortgage area tremendously. The result was a gain on mortgages sold of $1,467,000, an increase of $922,000 or 169.2 percent over 1997. The Company also sold securities, realizing a $1,256,000 gain on these sales. The declining rate environment allowed the Company to recognize these gains while better positioning the portfolio for future liquidity needs.

A major challenge during 1998 was the completion of a two-year, $4.5 million investment in technology. As the Company has nearly doubled in size from $497 million in 1994, to $979 million in 1998, investments needed to be made to provide superior local service to our customers in 14 counties. These investments included new teller and sales systems, new image capture software and hardware, a data warehouse system and a new telephone system utilizing voice over data frame relay. These improvements position the Company for future growth, and allow any bank location to provide customers with the type of service and information that they expect from their hometown bank. The cost of these improvements, and the thirty percent increase in the branch network in 1998, resulted in a 29.5 percent increase in occupancy and equipment costs in 1998. The Company also experienced a 24.4 percent increase in salaries and benefits related to the growth in offices. Also, $942,000 of expense was added to the growth in other expenses due to the amortization of the intangible assets relating to the branch purchases in late 1997 and early 1998.

As a result of all these factors, income before income tax expense increased $354,000 or 3.1 percent to $11,814,000 for 1997, as compared to $11,460,000 for 1997. Income tax expense was $3,926,000 and $3,920,000 for

1998 and 1997. Income tax expense as a percent of income before taxes was 33.2 percent for 1998 and 34.2 percent for 1997. Net income increased to $7,888,000 for 1998, an increase of $348,000 or 4.6 percent over the net income of $7,540,000 for 1997. Basic earnings per share for 1998 was $1.36 as compared to $1.30 for 1997. Net income of $7,888,000 represented a 16.6 percent return on January 1, 1998 stockholders' equity (excluding the equity adjustment related to SFAS No. 115) and a .89 percent return on average daily assets.

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 million at December 31, 1997, an increase of $139.9 million (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 million, to $458.6 million at year-end 1997. Total deposits increased 23.4 percent, or $116 million (including deposits of $95 million acquired in branch acquisitions in the fourth quarter of 1997), to $613 million at December 31, 1997. Core funding, deposits plus securities sold under agreement to repurchase, increased 16.5 percent, or $96 million, to $678.5 million. 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 was 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. Nonaccrual loans totaled $1,058,000, $384,000 and $532,000 at the end of the years 1997, 1996 and 1995. Two commercial loans and two mortgage loans accounted for the majority of the amount in nonaccrual loans for 1997.

Interest expense for 1997 was $28,060,000. This was an increase of $4,323,000, or 18.2 percent, over the interest expense for 1996. The increase in interest expense was 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 included the guaranteed preferred beneficial interests in the Company's subordinated debentures added in 1997 and the related interest expense along with 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 was 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 was believed by management to be adequate to absorb all potential risk applicable to the classification of loans as loss, doubtful, substandard or special mention. This allowance did not represent or result from trends that would 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 reflected 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, which represented 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 $1.30 for 1997, as compared to $1.11 for 1996. Net income of $7,540,000 represented 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.

TABLE 1 - REPRICING OPPORTUNITIES

The table below illustrates the funding gaps for selected maturity periods as of December 31, 1998, 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	$ 314,793	$ 54,094	$ 102,580
Securities	36,877	36,234	136,347
Short-term investments	15,575	0	0
Total	367,245	90,328	238,927
Deposits and Purchased Funds			
Transaction accounts	64,913	0	0
Time deposits	342,527	88,451	68,037

Short-term borrowings	111,868	13,272	10,550
Long-term borrowings	10,001	0	10,089
Total	$ 529,309	$ 101,723	$ 88,676
Interest sensitivity GAP	$ (162,064)	$ (11,395)	$ 150,251
Cumulative interest sensitivity GAP	$ (162,064)	$ (173,459)	$ (23,208)
Cumulative GAP as percentage of earning assets	(18.3)%	(19.6)%	(2.6)%

YEAR 2000

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 an impact on the items necessary to remain competitive including customer

information, and customer conveniences such as ATM's, telephone banking and debit cards. In discussing the Year 2000 issue, management will use various estimates and projections relating to costs, percentages or stages of completion, possible scenarios and contingency plans. These are only estimates and projections. Actual costs, percentage or stage of completion and outcomes may be different from management's estimates and projections. Although management believes it is taking all the steps necessary to prepare for Year 2000, there are many factors beyond management's control and ability to foresee that may have a significant impact on future events.

The Company is taking a proactive approach to the Year 2000 issue. A Year 2000 Committee 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 committee has developed a 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 has been compiled. All software vendors were requested to provide a written statement regarding their Year 2000 efforts and compliance. 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. As part of the banking industry, FiServ is periodically examined by regulatory agencies regarding their Year 2000 efforts to help ensure their systems will be Year 2000 compliant. FiServ maintains a website on the Internet and specifically addresses their Year 2000 efforts and have indicated their systems will be reviewed for Year 2000 compliance by McGladrey and Pullen. In addition, a Company representative is a member of the FiServ Client Advisory Board. No material Year 2000 concerns have been brought to management's attention.

The support and network software the Company uses is purchased from outside vendors. Any software where the vendor was unable to confirm the software is Year 2000 compliant, or did not provide a statement on Year 2000 compliance, was evaluated to determine the potential impact of noncompliance and availability of alternative compliant software. The review of all the software is complete and Year 2000 compliant software is being installed to replace software determined to be non-compliant or for which no certification of compliance was provided. The Company has developed a software testing plan which was submitted to the regulators in October, 1998. This plan substantially meets all FFIEC guidelines and the Company is on schedule to meet all plan deadlines.

The hardware the Company uses primarily consists of personal computers, ATM's and communications equipment. All personal computers have been tested by Company personnel 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. The testing of hardware was approximately 90 percent complete as of December 31, 1998. All hardware failing the tests or known to be noncompliant was evaluated as to the possible effect of noncompliance and the need for replacement. Several hardware purchases were accelerated due to Year 2000 issues. The hardware testing plan the Company is following was submitted to the regulators in October 1998. This plan substantially meets all FFIEC guidelines and the Company is on schedule to meet all plan deadlines.

All purchases of software and hardware are processed through the 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. All non-compliant hardware and software will be taken out of service by June 30, 1999. This hardware and software will be replaced as deemed necessary.

Other electrical and mechanical equipment are also being evaluated as to reliance on computer software and the possible effect of the Year 2000. Major components of this equipment include security and HVAC (heating, ventilation and air conditioning) equipment. The Company's security officer has stated all security equipment has been tested to determine the reliance on computer systems and the potential impact of the Year 2000 issue. The Company's facilities manager is responsible for evaluating 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. The evaluation of this equipment was completed as of December 31, 1998. No material items were noted.

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. In 1997, 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 review of its current hardware. The costs for upgrading other electrical and mechanical equipment, such as security equipment and HVAC equipment, is not anticipated to be material. Beginning in 1996, the Company began projects to upgrade its technology and support systems due to the growth the Company was experiencing and anticipated. The costs incurred for these projects were $4.5 million. The costs within these projects specifically related to the Year 2000 issue are difficult to segregate. However, management estimates approximately 20 percent of these project costs are combined software, hardware and other equipment costs related to the Year 2000 issue, including costs of accelerated purchases. This estimate does not include any personnel costs relating to the Year 2000 issue. These projects are substantially complete.

Other areas of concern being addressed by the committee 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 lending customers have been contacted regarding their Year 2000 efforts. Large corporate depositors are also being contacted regarding their Year 2000 efforts. Other customers will be evaluated on a case-by-case basis. In addition, the Company has conducted several seminars for corporate customers regarding the Year 2000 issue. These seminars have been well attended.

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. Becoming Year 2000 compliant has had an impact on earnings this year due to additional payroll costs, training costs and accelerated purchases. Management believes it is taking the necessary steps to ensure the Company's systems will be Year 2000 compliant in a timely manner. In January, 1999, the FDIC completed a Phase II examination of the Company's Year 2000 efforts. The Company continues to meet all published FDIC Year 2000 guidelines.

As a precaution, management is in the process of developing both bank-wide and functional area contingency plans. The largest risks the Company has are that FiServ will not be able to process or there will be problems with communications or power. Regulators have agreed there are certain systems that, due to the level of reliance on these systems, there is little ability to establish traditional contingency plans. Management considers FiServ, communications and power to be these types of systems. Due to the efforts FiServ has exhibited and the regulatory oversight they are under, management believes the probability is very small that they will not be ready. A more likely scenario is that one or more of the support applications will not function correctly. That would most likely result in a one to two day delay in posting of customer transactions since the majority of the functions of the non-FiServ applications could be performed manually. Currently the major concerns are power and communications since these are provided by outside sources and the Company has no means to test them. The Company does have a back-up power system to provide power to key areas in the event of a power failure and can transport transaction information physically in the event of communication problems. Both these concerns have been addressed in the Company's contingency plan. The Year 2000 problem is pervasive and complex and can potentially affect any computer process. Accordingly, no assurance can be given the Year 2000 compliance can be achieved without additional unanticipated expenditures and uncertainties that might affect future financial results. It is not possible at this time to quantify the estimated future costs due to possible business disruption caused by vendors, suppliers, customers, or even the possible loss of electric power or phone service, however, such costs could be substantial.

LAKE CITY BANK
OFFICERS

R. Douglas Grant	Chairman
Michael L. Kubacki	President
D. Jean Northenor	Executive Vice 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
Kenneth L. Kasamis	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
J. Mark Ulrich	Vice President
Randal U. Vutech	Vice President
Julie W. Whitehead	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

Trust & Investments

Dennis E. Cultice	Senior Vice President
Dennis A. Reeve	Vice President
William C. Coleman	Vice President
Jeanine D. Knowles	Vice President
Andrew S. Lewis	Vice President
Jill A. O'Sullivan	Vice President
Judith R. Simcox	Vice President
Larry L. Poyser	Assistant Vice President
Debra L. Rich	Assistant Vice President
Peggy L. Terhaar	Assistant Vice President
Patricia L. Culp	Trust Officer

Marketing, Human Resources and Facilities

Allyn P. Decker	Vice President
Cathy L. Teghtmeyer	Vice President
Jill DeBatty	Assistant Vice President
John W. Gove	Assistant Vice President
Paul S. Purvis	Assistant Vice President

Retail Services

Dale L. Cramer	Vice President
Thomas P. Frantz	Vice President
James D. Tague	Vice President
Janet K. Anderson	Assistant Vice President
Barry A. Bailey	Assistant Vice President
Dennis E. Dolby	Assistant Vice President
J. Bradley Glasson	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
W. John Pritz	Retail Banking Officer
Melanie R. Shipley	Retail Banking Officer
Bradley Smith	Retail Banking Officer
Lisa A. Stookey	Retail Banking Officer

Financial

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

Operations

Frank A. Soltis	Senior Vice President
Judy K. Harvey	Vice President
Vicki D. Martin	Vice President
Lisa M. Bicknese	Assistant Vice President
Lisa A. Fulton	Assistant Vice President
Ruth A. Hutcherson	Assistant Vice President
Linda A. Owens	Assistant Vice President
Angela K. Ritchey	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
Scot A. Karbach	Operations Officer
Jan R. Martin	Operations Officer
Linda L. Swoverland	Operations Officer

Audit

Betty L. McHenry	Senior Vice President and Auditor
Kevin A. Linehan	Vice President
Michelle R. Halter	Assistant Auditor
Teah D. Wicks	Assistant Auditor

LAKE CITY BANK
OFFICERS

Office Administration

Kevin L. Deardorff	Senior Vice President
Jane E. Miller	Vice President
Jeri L. Yoder	Vice President
Jeannine P. Cooley	Assistant Vice President
Lisa L. Hockemeyer	Assistant Vice President
Nanceen P. Briggs	Retail Banking Officer
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	Steve Colagrossi	Assistant Vice President
Cromwell	Jana L. Miller	Assistant 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	Jeffery W. Krusenklaus	Office Manager
Elkhart Northwest	Kathleen M. Dougherty	Office Manager
Fort Wayne North	Bruce A. Wright	Vice President
Goshen Downtown	Jane M. Greene	Office Manager
Goshen South	Clarence J. "CJ" Yoder	Vice President
Granger	Daniel E. Hunt	Office Manager
Greentown	Donna L. Graham	Assistant Vice President
Huntington	Drew D. Dunlavy	Vice President
Kendallville Downtown	Mark R. Rensner	Assistant Office Manager
Kendallville East	L. Duane Smith	Vice President
LaGrange	Cathy I. Hefty	Assistant Vice President
Ligonier Downtown	Gaylord A. West	Vice President
	Lori I. Cunningham	Assistant Office Manager
Ligonier South	Craig R. Atz	Vice President
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	Office Manager
Mishawaka	Tammy S. Katona	Office Manager
	Sandra J. Cencelewski	Assistant 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
	Carol D. Brown	Assistant Office Manager
Roann	Merrill A. Templin	Assistant Vice President
Rochester	Phyllis M. Biddinger	Office Manager
Shipshewana	John R. Munsell	Vice President
	Sarah Miller-Bontrager	Assistant Office Manager
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 12/31/98 FORM
10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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12-MOS
DEC-31-1998
JAN-01-1998
DEC-31-1998
45,933
60
15,515
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416
138
5,510
2,752
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2,758