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 [FEE REQUIRED]
For the fiscal year ended December 31, 1995
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from _____________ to ____________

Commission File No. 0-11487

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

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

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

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

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

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

COMMON
(Title of Class)

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

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

Aggregate market value of the voting stock held by non-affiliates of the registrant, computed solely for the purposes of this requirement on the basis of the book value at February 29, 1996, and assuming solely for the purposes of this calculation that all Directors and executive officers of the Registrant are "affiliates": $35,131,538.

Number of shares of common stock outstanding at February 29, 1996: 1,448,496.

DOCUMENTS INCORPORATED BY REFERENCE

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

Part	Document
I, II & IV	Lakeland Financial Corporation's Annual Report to Shareholders for year ended December 31, 1995, parts of which are incorporated into Parts I, II and IV of this Form 10-K.
III	Proxy statement mailed to Shareholders on March 11, 1996, which is incorporated into Part III of this Form 10-K.

PART I.

ITEM 1. BUSINESS

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

GENERAL

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

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

The Bank's main banking office is located at 202 East Center Street, Warsaw, Indiana. As of December 31, 1995, the Bank had nine branch offices and one drive-up facility in Kosciusko County, seven branch offices in Elkhart County, three branch offices in Noble County, three branch offices in Wabash County, two branch offices in LaGrange County, two branch offices in Marshall County, one branch office in Whitley County and two branch offices and one drive-up facility in Fulton County. The Bank's operations center is located at 113 East Market Street, Warsaw, Indiana.

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

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

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

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

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

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

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

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

MATERIAL CHANGES AND BUSINESS DEVELOPMENTS

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

until 1992, during which year, Lakeland Mortgage Corp. was liquidated and all stock was redeemed.

COMPETITION

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

The Bank's service area is described as all of Kosciusko, Elkhart, and Wabash Counties and portions of St. Joseph, Marshall, Fulton, Miami, Huntington, Whitley, Noble, and LaGrange Counties. Within this area the Bank competes with 22 other banks, 7 of which are larger than the Bank. Of the 15 which are smaller than the Bank, 2 are members of Bank Holding Companies which are larger than the Registrant. Eight of these institutions have home offices outside the Bank's defined business area but operate branches within this area.

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. In addition, 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.

In addition to the banks within its service area, the Bank competes with other major banks for the large commercial deposit and loan accounts. The Bank is presently subject to an aggregate maximum loan limit to any single account in the amount of $6,232,000 pursuant to Indiana law. This maximum prohibits the Bank from providing a full range of banking services to those businesses or personal accounts whose borrowing periodically exceed this amount. In order to retain at least a portion of the bank business of these large borrowers, the Bank maintains correspondent relationships with: Norwest Bank, Indiana, N.A., Fort Wayne, Indiana; NBD, N.A., Indianapolis, Indiana; Northern Trust Company, Chicago, Illinois; Bank One, N.A., Indianapolis, Indiana; and Mellon Bank, N.A., Pittsburgh, Pennsylvania. The Bank also participates with local and other banks in the placement of large borrowings in excess of its lending limit. The Bank is also a member of the Federal Home Loan Bank of Indianapolis in order to broaden its mortgage lending and investment activities and to provide additional funds, if necessary, to support these activities.

FOREIGN OPERATIONS

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

EMPLOYEES

At December 31, 1995, the Registrant, including its subsidiary corporation, had approximately 292 full time equivalent employees. Benefit programs include a pension plan, 401(k) plan, group medical insurance, group life insurance and paid vacations. The bank is not a party to any collective bargaining agreement, and employee relations are considered good.

INDUSTRY SEGMENTS

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

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

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

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

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

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

	1994			1993		
	Average Balance	Interest Income	Yield*	Average Balance	Interest Income	Yield*
ASSETS						
Earning assets:						
Trading account investments	$ 0	$ 0	0.00%	$ 72	$ 2	3.31%
Loans:						
Taxable **	267,604	23,658	8.84	235,352	19,946	8.47
Tax Exempt *	3,787	413	10.91	5,114	529	10.34
Investments:						
Taxable	149,049	8,842	5.93	100,507	6,459	6.43
Tax Exempt *	11,436	1,102		9.610.26	9,463	971
Short-term investment	3,551	152	4.28	3,111	93	2.99
Interest bearing deposits	98	3	3.06	3,116	92	2.95
Total earning assets	$ 435,525	$ 34,170	7.85%	$ 356,735	$ 28,092	7.87%
Nonearning assets:						
Cash and due from banks	18,164	0		12,505	0	
Premises and equipment	10,104	0		8,119	0	
Other assets	7,508	0		8,308	0	
Less: allowance for loan losses	(4,417)	0		(3,419)	0	
Total assets	$ 466,884	$ 34,170		$ 382,248	$ 28,092	

* Tax exempt income converted to fully taxable equivalent basis at a 34 percent tax rate for 1994 and 1993. Tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983, includes TEFRA adjustment applicable to nondeductible interest expenses. Nonaccrual loans are included in the above analysis as earning assets - loans.

**Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 1994, and 1993, are included as taxable loan interest income.

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

	1995			1994		
	Average Balance	Interest Expense	Rate	Average Balance	Interest Expense	Rate
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities						
Savings deposits	$ 46,123	$ 1,069	2.32%	$ 55,855	$ 1,517	2.72%
Interest bearing checking accounts	55,355	1,333	2.41	58,945	1,394	2.36
Time deposits						
In denominations under $100,000	177,992	10,035	5.64	148,251	6,837	4.61
In denominations over $100,000	73,449	4,410	6.00	54,389	2,360	4.34
Miscellaneous short-term borrowings	66,610	3,803	5.71	47,220	1,879	3.98
Long-term borrowings	17,432	992	5.69	15,806	900	5.69
Capital notes	0	0	0.00	0	0	0.00
Total interest bearing liabilities	$ 436,961	$ 21,642	4.95%	$ 380,466	$ 14,887	3.91%
Non-interest bearing liabilities and stockholders' equity						
Demand deposits	60,753	0		52,893	0	
Other liabilities	4,897	0		4,606	0	
Stockholders' equity	33,084	0		28,919	0	
Total liabilities and stock-holders' equity	$ 535,695	$ 21,642	4.04%	$ 466,884	$ 14,887	3.19%
Net interest differential - yield on average daily earning assets		$ 21,103	4.22%		$ 19,283	4.43%

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

	1994			1993		
	Average Balance	Interest Expense	Rate	Average Balance	Interest Expense	Rate
LIABILITIES AND STOCK-HOLDERS' EQUITY						
Interest bearing liabilities						
Savings deposits	$ 55,855	$ 1,517	2.72%	$ 38,263	$ 1,059	2.77%
Interest bearing checking accounts	58,945	1,394	2.36	54,197	1,380	2.55
Time deposits						
In denominations under $100,000	148,251	6,837	4.61	128,520	6,074	4.73
In denominations over $100,000	54,389	2,360	4.34	42,458	1,588	3.74
Miscellaneous short-term borrowings	47,220	1,879	3.98	42,919	1,428	3.33
Long-term borrowings	15,806	900	5.69	8,677	493	5.68
Capital notes	0	0	0.00	0	0	0.00
Total interest bearing liabilities	$ 380,466	$ 14,887	3.91%	$ 315,034	$ 12,022	3.82%
Non-interest bearing liabilities and stockholders' equity						
Demand deposits	52,893	0		37,709	0	
Other liabilities	4,606	0		3,847	0	
Stockholders' equity	28,919	0		25,658	0	
Total liabilities and stock-holders' equity	$ 466,884	$ 14,887	3.19%	$ 382,248	$ 12,022	3.15%
Net interest differential - yield on average daily earning assets		$ 19,283	4.43%		$ 16,070	4.50%

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

YEAR ENDED DECEMBER 31,

	1995 Over (under) 1994(1)			1994 Over (under) 1993(1)		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST AND LOAN FEE INCOME(2)						
Loans:						
Taxable	$ 3,581	$ 2,620	$ 6,201	$ 2,823	$ 889	$ 3,712
Tax exempt	(39)	15	(24)	(143)	27	(116)
Investments:						
Taxable	1,344	537	1,881	2,912	(529)	2,383
Tax exempt	496	(26)	470	193	(61)	132
Trading account investments	0	0	0	(1)	(1)	(2)
Short-term investment	(12)	52	40	14	45	59
Interest bearing deposits	0	7	7	(100)	10	(90)
Total interest income	5,370	3,205	8,575	5,698	380	6,078
INTEREST EXPENSE						
Savings deposits	(243)	(205)	(448)	478	(20)	458
Interest bearing checking accounts	(86)	25	(61)	116	(102)	14
Time deposits						
In denominations under $100,000	1,517	1,681	3,198	914	(150)	764
In denominations over $100,000	979	1,071	2,050	492	280	772
Miscellaneous short-term borrowings	935	989	1,924	152	298	450
Long-term borrowings	93	(1)	92	406	1	407
Total interest expense	3,195	3,560	6,755	2,558	307	2,865
INCREASE (DECREASE) IN INTEREST DIFFERENTIALS	$ 2,175	$ (355)	$ 1,820	$ 3,140	$ 73	$ 3,213

(1) The earning assets and interest bearing liabilities used to calculate interest differentials are based on average daily balances for 1995, 1994 and 1993. The changes in volume represent "changes in volume times the old rate". The changes in rate represent "changes in rate times old volume". The change in rate/volume were also calculated by "change in rate times change in volume" and allocated consistently based upon the relative absolute values of the changes in volume and changes in rate.

(2) Tax exempt income converted to fully taxable equivalent basis at a 34 percent tax rate for 1995, 1994 and 1993. Tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983, includes TEFRA adjustment applicable to nondeductible interest expense.

ANALYSIS OF SECURITIES
(in thousands of dollars)

The amortized cost and the fair value of securities as of December 31, 1995, 1994 and 1993 are as follows:

	1995		1994		1993	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale:						
U.S. Treasury securities	$ 27,549	$ 27,844	$ 26,960	$ 25,916	$ 29,701	$ 30,446
Government agencies and corporations	2,150	2,191	1,000	1,000	0	0
Mortgage-backed securities	48,302	48,843	30,734	28,987	26,798	26,810
Obligations of state and political subdivisions	2,076	2,176	887	933	882	975
Other securities	999	1,066	999	1,026	999	1,128
Total debt securities available-for-sale	81,076	82,120	60,580	57,862	58,380	59,359
Securities held-to-maturity:						
U.S. Treasury securities	$ 13,611	$ 13,576	$ 14,714	$ 13,876	$ 10,544	$ 10,559
Government agencies and corporations	2,898	3,033	2,034	2,037	99	99
Mortgage-backed securities	77,319	77,471	78,781	73,673	77,085	77,067
Obligations of state and political subdivisions	19,047	20,077	13,608	13,061	10,825	11,457
Other securities	1,013	1,171	1,015	1,076	1,017	1,195
Total debt securities held-to-maturity	113,888	115,328	110,152	103,723	99,570	100,377
Equity securities	0	0	0	0	0	0
Total securities held to maturity	$ 113,888	$ 115,328	$ 110,152	$ 103,723	$ 99,570	$ 100,377

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

The maturity distribution (2) and weighted average yields (1) for debt securities portfolio at December 31, 1995, are as follows:

	Within One Year	After One Year Within Five Years	After Five Years Within Ten Years	Over Ten Years
Securities available-for-sale:				
U.S. Treasury securities				
Book value	100	27,449	0	0
Yield	6.56	5.97		
Government agencies and corporations				
Book value	1,000	1,050	100	0
Yield	7.70	7.91	9.02	
Mortgage-backed securities				
Book value	0	5,327	20,577	22,398
Yield		7.11	6.34	6.51
Obligations of state and political subdivisions				
Book value	0	591	0	1,485
Yield		11.55		8.57
Other debt securities				
Book value	0	999	0	0
Yield		9.34		
Total debt securities available-for-sale:				
Book value	1,100	35,416	20,677	23,883
Yield	7.60	6.39	6.35	6.64
Securities held-to-maturity:				
U.S. Treasury securities				
Book value	2,549	11,062	0	0
Yield	4.39	5.28		
Government agencies and corporations				
Book value	0	2,598	300	0
Yield		7.52	6.42	
Mortgage-backed securities				
Book value	0	15,050	39,028	23,241
Yield		6.81	6.21	5.67
Obligations of state and political subdivisions				
Book value	7	586	758	17,696
Yield	4.27	9.92	10.53	9.12
Other debt securities				
Book value	0	1,013	0	0
Yield		9.73		
Total debt securities held-to-maturity:				
Book value	2,556	30,309	40,086	40,937
Yield	4.38	6.47	6.30	7.16

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

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

The Registrant segregates its loan portfolio into four basic segments: commercial (including agri-business and agricultural loans), real estate mortgages, installment and credit cards (including personal line of credit loans). The loan portfolio as of December 31, 1995, 1994, 1993, 1992, and 1991 is as follows:

	1995	1994	1993	1992	1991
Commercial loans:					
Taxable	$ 192,359	$ 173,325	$ 144,274	$ 128,268	$ 97,510
Tax exempt	3,636	3,207	4,501	5,594	6,521
Total commercial loans	195,995	176,532	148,775	133,862	104,031
Real estate mortgage loans	55,948	47,296	49,816	50,413	50,697
Installment loans	58,175	48,228	46,914	36,111	33,312
Credit card and line of credit loans	17,499	15,900	14,680	13,816	11,986
Total loans	327,617	287,956	260,185	234,202	200,026
Less allowance for loan losses	5,472	4,866	4,010	3,095	2,612
Net loans	$ 322,145	$ 283,090	$ 256,175	$ 231,107	$ 197,414

The real estate mortgage loan portfolio includes construction loans totaling $1,224, $426, $223, $1,164, and $885 as of December 31, 1995, 1994, 1993, 1992 and 1991, respectively. The above loan classifications are based on the nature of the loans as of the loan origination date, and are independent as to the use of the funds by the borrower. There are no foreign loans included in the above analysis.

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

Repricing opportunities of the loan portfolio occur either according to predetermined adjustable rate schedules included in the related loan agreements or upon scheduled maturity of each principal payment. The following table indicated the rate sensitivity of the loan portfolio as of December 31, 1995. The table includes the real estate loans held-for-sale and assumes these loans will not be sold during the various time horizons.

	Commercial	Real Estate	Installment	Credit Card and Line of Credit	Total	Percent
Immediately adjustable interest rates or original maturity of one day	$ 155,694	$ 2,071	$ 3,503	$ 14,574	$ 175,842	53.6%
Other within one year	8,761	25,515	22,932	0	57,208	17.4
After one year, within five years	25,551	22,753	31,070	2,925	82,299	25.1
Over five years	5,533	5,677	670	0	11,880	3.6
Nonaccrual loans	456	77	0	0	533	0.2
Total loans	$ 195,995	$ 56,093	$ 58,175	$ 17,499	$ 327,762	100.0%

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

Loans due after one year which have a predetermined interest rate and loans due after one year which have floating or adjustable interest rates as of December 31, 1995 amounted to $76,568 and $109,332 respectively.

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

The following is a summary of nonperforming loans as of December 31, 1995, 1994, 1993, 1992 and 1991.

	1995	1994	1993	1992	1991
PART A - PAST DUE ACCRUING LOANS (90 DAYS OR MORE)					
Real estate mortgage loans	$ 122	$ 0	$ 1	$ 79	$ 27
Commercial and industrial loans	69	16	315	100	1,127
Loans to individuals for household, family and other personal expenditures	18	19	346	42	55
Loans to finance agriculture production and other loans to farmers	0	0	0	0	0
Total past due loans	209	35	662	221	1,209
PART B - NONACCRUAL LOANS					
Real estate mortgage loans	76	18	0	0	22
Commercial and industrial loans	456	0	0	0	198
Loans to individuals for household, family and other personal expenditures	0	0	0	0	5
Loans to finance agriculture production and other loans to farmers	0	0	0	0	628
Total nonaccrual loans	532	18	0	0	853
PART C - TROUBLED DEBT RESTRUCTURED LOANS	1,432	1,484	0	86	4
Total nonperforming loans	$ 2,173	$ 1,537	$ 662	$ 307	$ 2,066

Nonearning assets of the Corporation include nonaccrual loans (as indicated above), nonaccrual investments, other real estate, and repossessions which amounted to $1,207 at December 31, 1995.

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

PART A - CONSUMER LOANS

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

PART B - NONPERFORMING LOANS

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

As of December 31, 1995, loans totaling $532,000 were on nonaccrual status.

PART C - TROUBLED DEBT RESTRUCTURED LOANS

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

Loans renegotiated as troubled debt restructuring totaled $1,432,000 as of December 31, 1995. Interest income of $96,000 was recognized in 1995. Had these loans been performing under the original contract terms, an additional $53,000 would have been reflected in interest income during 1995. The Bank is not committed to lend additional funds to debtors whose loans have been modified.

PART D - OTHER NONPERFORMING ASSETS

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

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

PART E - LOAN CONCENTRATIONS

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

Basis For Determining Allowance For Loan Losses

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

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

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

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

Based upon the above described policy and objectives, $120,000, $795,000 and $790,000 were charged to the provision for loan losses and added to the allowance for loan losses in 1995, 1994 and 1993, respectively.

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

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

Following is a summary of the loan loss experience for the years ended December 31, 1995, 1994, 1993, 1992, and 1991.

	1995	1994	1993	1992	1991
Amount of loans outstanding, December 31,	$ 327,617	$ 287,956	$ 260,185	$ 234,202	$ 200,026
Average daily loans outstanding during the year ended December 31,	$ 309,241	$ 271,391	$ 240,466	$ 213,599	$ 178,619
Allowance for loan losses, January 1,	$ 4,866	$ 4,010	$ 3,095	$ 2,612	$ 1,777
Loans charged-off					
Commercial	137	27	99	446	1,016
Real Estate	48	0	4	258	20
Installment	112	93	97	217	221
Credit cards and personal credit lines	58	15	28	39	66
Total loans charged-off	355	135	228	960	1,323
Recoveries of loans previously charged-off					
Commercial	26	107	40	11	18
Real Estate	0	1	1	0	0
Installment	63	81	56	85	106
Credit cards and personal credit lines	6	7	6	7	5
Total recoveries	95	196	103	103	129
Net loans charged-off	260	(61)	125	857	1,194
Purchase loan adjustment	746	0	250	0	59
Provision for loan loss charged to expense	120	795	790	1,340	1,970
Balance December 31,	$ 5,472	$ 4,866	$ 4,010	$ 3,095	$ 2,612
Ratio of net charge-offs during the period to average daily loans outstanding					
Commercial	0.03%	(0.03)%	0.02%	0.20%	0.56%
Real Estate	0.01	0.00	0.00	0.12	0.01
Installment	0.02	0.01	0.02	0.06	0.07
Credit cards and personal credit lines	0.02	0.00	0.01	0.02	0.03
Total	0.08%	(0.02)%	0.05%	0.40%	0.67%

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, 1995, 1994, 1993, 1992 and 1991.

	1995		1994		1993	
	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	$ 811	59.82	$ 665	61.31	$ 1,120	57.18
Real Estate	112	17.08	95	16.42	108	19.15
Installment	376	17.76	311	16.75	302	18.04
Credit cards and personal credit lines	112	5.34	101	5.52	95	5.63
Total allocated allowance for loan losses	1,411	100.00	1,172	100.00	1,625	100.00
	4,061		3,694		2,385	
Total allowance for loan losses	$ 5,472		$ 4,866		$ 4,010	

	1992		1991	
	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	$ 864	57.16	$ 1,168	52.01
Real Estate	105	21.52	90	25.35
Installment	230	15.42	214	16.65
Credit cards and personal credit lines	87	5.90	76	5.99
Total allocated allowance for loan losses	1,286	100.00	1,548	100.00
	1,809		1,064	
Total allowance for loan losses	$ 3,095		$ 2,612	

ANALYSIS OF DEPOSITS
(in thousands of dollars)

The average daily deposits for the years ended December 31, 1995, 1994 and 1993, and the average rates paid on those deposits are summarized in the following table:

	1995		1994		1993	
	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid
Demand deposits	$ 60,753	0.00	$ 52,893	0.00	$ 37,709	0.00
Savings accounts:						
Regular savings	46,123	2.32	55,855	2.72	38,263	2.77
Interest bearing checking	55,355	2.41	58,945	2.36	54,197	2.55
Time deposits:						
Deposits of $100,000 or more	73,449	6.00	54,389	4.34	42,458	3.74
Other time deposits	177,992	5.64	148,251	4.61	128,520	4.73
Total deposits	$ 413,672	4.07	$ 370,333	3.27	$ 301,147	3.35

As of December 31, 1995, time certificates of deposit in denominations of $100,000 or more will mature as follows:

Within three months	$ 33,382
Over three months, within six months	12,922
Over six months, within twelve months	9,237
Over twelve months	6,822
Total time certificates of deposit in denominations of $100,000 or more	$ 62,363

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, 1995, 1994 and 1993 are as follows:

	1995	1994	1993
Percent of net income to:			
Average daily total assets	1.05	1.10	1.11
Average daily stockholders' equity	17.06	17.73	16.51
Percentage of dividends declared per common share to net income per weighted average number of common shares outstanding (1,438,496 shares in 1995, 1994 and 1993)	18.88	16.57	17.01
Percentage of average daily stockholders' equity to average daily total assets	6.18	6.19	6.71

SHORT-TERM BORROWINGS

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

	1995	1994	1993
Outstanding at year end	$ 58,151	$ 41,750	$ 29,372
Approximate average interest rate at year end	5.35	5.11	3.22
Highest amount outstanding as of any month end during the year	$ 79,334	$ 50,460	$ 42,485
Approximate average outstanding during the year	$ 61,398	$ 42,584	$ 38,299
Approximate average interest rate during the year	5.69	3.96	3.34

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

ITEM 2. PROPERTIES

The Bank conducts its operations from the following locations:

Main Office
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 Rod 331
Bremen, IN

Columbia City
507 North Main St.
Columbia City, IN

Concord
4202 Elkhart Rd.
Goshen, IN

Cromwell
111 North Jefferson St.
Cromwell, IN

Elkhart
864 East Beardsley St.
Elkhart, IN

Elkhart East
22050 State Road 120
Elkhart, IN

Goshen Downtown
102 North Main St.
Goshen, IN

Goshen South
2513 South Main St.
Goshen, IN

LaGrange
901 South Detroit
LaGrange, IN

Ligonier
1470 U.S. Highway 33 South
Ligonier, IN

Mentone
202 East Main St.
Mentone, IN

Middlebury
712 Wayne Ave.
Middlebury, IN

Milford
Indiana State Road 15 North
Milford, IN

Nappanee
202 West Market St.
Nappanee, IN

North Webster
644 North Main St.
North Webster, IN

Pierceton
202 South First St.
Pierceton, IN

Roann
110 Chippewa
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.
Wasbash, 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

Free-standing ATM
2101 East Center St.
Warsaw, IN

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

No matter was submitted to a vote of security holders from October 1, 1992 to December 31, 1995.

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PART II

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

Information relating to the principal market for and the prices of the Registrant's common stock, and information as to dividends declared by the Registrant, are contained under the caption "Stock and Dividend Information" in the 1995 Annual Report and are incorporated herein by reference in response to this item. On December 31, 1995, the Registrant had 870 shareholders, including those employees who participate in the Registrant's 401(K) plan.

ITEM 6. SELECTED FINANCIAL DATA

A five year consolidated financial summary, containing the required selected financial data, appears under the caption "Selected Financial Data" in the 1995 Annual Report and is incorporated herein by reference in response to this item.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 1995 Annual Report and is incorporated herein by reference in response to this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements appear in the 1995 Annual Report and are incorporated herein by reference in response to this item.

Consolidated Balance Sheets at December 31, 1995 and 1994.
Consolidated Statements of Income for the years ended December 31, 1995, 1994 and 1993.
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1995, 1994 and 1993.
Consolidated Statements of Cash Flows for the years ended December 31, 1995, 1994 and 1993.
Notes to Consolidated Financial Statements.
Report of Independent Auditors.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information appearing in the Registrant's definitive Proxy Statement dated March 11, 1996, is incorporated herein by reference in response to this item.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing in the Registrant's definitive Proxy Statement dated March 11, 1996, is incorporated herein by reference in response to this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing in the Registrant's definitive Proxy Statement dated March 11, 1996, is incorporated herein by reference in response to this item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing in the Registrant's definitive Proxy Statement dated March 11, 1996, is incorporated herein by reference in response to this item.

PART IV

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

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

(1) Financial Statements.

The following financial statements of the Registrant and its subsidiaries appear in the 1995 Annual Report and are specifically incorporated by reference under Item 8 of this Form 10-K, or are a part of this Form 10-K, as indicated and at the pages set forth below.

	Reference	
	Form 10-K	1995 Annual Report
Consolidated Balance Sheets at December 31, 1995 and 1994.		7
Consolidated Statements of Income for the years ended December 31, 1995, 1994 and 1993.		8
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1995, 1994 and 1993.		9
Consolidated Statements of Cash Flows for the years ended December 31, 1995, 1994 and 1993.		10
Notes to Consolidated Financial Statements.		11 - 20
Report of Independent Auditors.		20

(2) Financial Statement Schedules

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

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SIGNATURES

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

LAKELAND FINANCIAL CORPORATION

Date: March 12, 1996 By R. Douglas Grant
(R. Douglas Grant) President

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

Date: March 12, 1996	R. Douglas Grant (R. Douglas Grant) Principal Executive Officer and Director
Date: March 12, 1996	Terry M. White (Terry M. White) Principal Financial and Accounting Officer
Date: March 12, 1996	Anna K. Duffin (Anna K. Duffin) Director
Date:	(Eddie Creighton) Director
Date: March 12, 1996	L. Craig Fulmer (L. Craig Fulmer) Director
Date: March 12, 1996	Jerry L. Helvey (Jerry L. Helvey) Director
Date: March 12, 1996	Homer A. Kent (Dr. Homer A. Kent) Director
Date: March 12, 1996	J. Alan Morgan (J. Alan Morgan) Director
Date: March 12, 1996	Richard L. Pletcher (Richard L. Pletcher) Director
Date:	(Joseph P. Prout) Director
Date: March 12, 1996	Philip G. Spear (Philip G. Spear) Director
Date:	(Terry L. Tucker) Director
Date:	(G.L. White) Director

EXHIBIT INDEX

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

Exhibit 13 - 1995 Report to Shareholders with Report of Independent Auditors.

Exhibit 21 - Subsidiaries

EXHIBIT 13

1995 Report to Shareholders with Report of Independent Auditors.

EXHIBIT 21

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

ANNUAL MEETING

The annual meeting of the shareholders of Lakeland Financial Corporation will be held at noon, April 9, 1996, at the Shrine Building, Kosciusko County Fair Grounds, Warsaw, Indiana. As of December 31, 1995, there were 870 shareholders.

SPECIAL NOTICE: FORM 10-K AVAILABLE

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

REGISTRAR AND TRANSFER AGENT

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

PRESIDENT'S LETTER

Your corporation earned $5,645,000, or $3.92 per share in 1995. This is a 10 percent increase over 1994, when we reported earnings of $5,126,000, or $3.56 per share. This is the eighth consecutive year of increased earnings.

One of the keys to increasing earnings is growth. Total assets grew $71,616,000, or 14 percent, to end the year at $568,579,000. This increase reflects an on-going geographical expansion and continued growth throughout the markets the Corporation has traditionally served. These assets were funded by a record level of deposits and repurchase agreements. Each office offers a wide variety of deposit products and repurchase agreements to provide core funding for loan demand. During 1995, total deposits and repurchase agreements grew $51,595,000, or 12 percent to end the year at $490,085,000. Loan demand continued strong in 1995, as loans grew $39,661,000, or about 14 percent, to finish the year at $327,617,000.

[Picture of R. Douglas Grant - President, Lakeland Financial Corporation]

Another important component of profitability is growth in net interest income. This fundamental measure of performance is the difference between the interest earned on our assets and the interest paid on our liabilities. As with most financial institutions, intense competition and the interest rate environment in 1995, resulted in a reduced interest spread during the year. However, this reduced spread was more than offset by our strong asset growth. As a result, net interest income in 1995 rose $1,669,000, or 9 percent, to $20,437,000. We are also pleased that asset quality remains excellent. Deteriorating asset quality reduces the earnings of the Corporation by creating nonearning assets, and necessitating a larger provision for loan losses. The quality of your Corporation's assets allowed for a $675,000 reduction in the provision for loan losses, to $120,000 in 1995.

Noninterest income in 1995 increased $367,000, or about 9 percent, to end the year at $4,636,000. Recurring noninterest fees such as Trust, service charges on deposit accounts, mortgage servicing, loan and insurance fees all contributed to this increase. Noninterest income was also enhanced by security gains of $315,000 during the year. Noninterest expense increased $2,152,000, or 15 percent, to finish 1995 at $16,244,000. This increase reflects the ordinary expenses associated with the new offices added in late 1994 and throughout 1995. It also reflects the Corporation's continuing commitment to offer high quality customer service by implementing the most current banking technology.

The Corporation's stock price reflects our strong financial performance. At year-end 1995, the Corporation's stock was being bought for about $41.50 per share. This represents a 20 percent increase during 1995. Higher earnings enabled your Board of Directors to authorize an increase in the cash dividend during 1995. The annual dividend rate is now $.80 per share, an 18 percent increase.

Trust income increased by 16 percent in 1995. Customer interest in our Trust services continues strong, particularly for retirement and estate planning. Our six "BANNER" Investment Portfolios performed exceptionally in 1995, reflecting their investments in high quality stocks and bonds. We continue to experience keen interest from our commercial customers for our 40l(k) product and have seen significant growth in the number of plans we manage.

[Picture of Directors Phillip G. Spear, Terry L. Tucker, Anna K. Duffin, Richard L. Pletcher and Jerry L. Helvey]

In late 1994 the Corporation opened its first branch office in LaGrange County, in the town of Shipshewana. Expansion into LaGrange County is both a natural extension of the Corporation's market area to the east of Elkhart County, and is necessary if the Corporation is to capitalize on the expectation that LaGrange County will be one of the fastest growing counties in Indiana over the next few years. In 1995, the Corporation had the opportunity to acquire another location. After careful review and negotiation, your Corporation purchased for cash, the outstanding shares of Gateway Bank, a $20 million bank located in LaGrange, Indiana. The Gateway Bank was merged into Lake City Bank on July 15, 1995, and now operates as a branch office. This location extends our market coverage to the east of our office in Shipshewana, and gives us market coverage in the two primary towns in the county. The assets acquired in this transaction included about $9 million of loans and $10 million of securities. The loans were mostly real estate. The Corporation also acquired approximately $18 million of deposits. These funds were primarily time deposits. Although this acquisition is small in relation to the overall size of our Corporation, the deposits we acquired represent about 6% of the LaGrange County market. These two locations will provide the necessary market presence to capitalize on the expected economic growth in this county in the coming years, and will have a positive impact on your Corporation's earnings.

We opened new offices in Middlebury, Concord and Rochester. The previously announced Kendallville office will open this spring. Current plans call for an expansion of the Elkhart office on Beardsley Avenue as well as the construction of a third full service Elkhart office located at Hubbard Hill. This brings our total to 31 full service offices throughout Northeast Indiana. Twenty-one of these locations have 24 Hour Tellers that permit customer access to their accounts around the clock. The convenience of Lake City Bank locations staffed with well known local people supported by the latest technology enables your bank to provide full service competitively while remaining small enough to keep the local personal touch.

[Picture of Directors G. L. White, Eddie Creighton, J. Alan Morgan, L. Craig Fulmer, Joseph P. Prout and Dr. Homer A. Kent]

Technology trends in the industry are continuously monitored as we carefully choose to add those services that will enhance our existing product line while offering the greatest opportunity for increased income and growth. We strive to remain competitive and to deliver our services in the most efficient way in an ever changing marketplace.

In January 1995 we provided customers with an improved bank statement. Simultaneously, we introduced check "imaging" as a way to reduce the bulky storage of checks for customers while still providing all the necessary information. The imaging system has enabled us to simplify our research process and provide customers with information on their accounts more quickly. In 1996, imaging will be used to further simplify and update our check processing, making our daily operations more efficient.

The 24 Hour Visa Check Card was added as an enhancement to our checking account products. It enables a customer to pay for goods and services from their checking account without writing a check anywhere Visa is accepted. This product has been popular with our customers. There is no charge to the customer to have or use the card. It is a new source of revenue to the bank via the interchange income from Visa. Everyone wins with a 24 Hour Visa Check Card!

In the fall, our new Telephone Banking service was introduced. Through Telephone Banking a customer can check balances, inquire on cleared checks, transfer funds, stop payment on a check, access a line of credit, check the status of a loan, or any of a variety of other banking activities at any time. And all this from the convenience of the home, office or virtually anywhere there is a telephone. A special Voice Recognition feature allows customers with rotary telephones to enjoy the benefits of this new service by speaking directly to the service.

In 1996, we look forward to adding an electronic bill payment service. This will enable a customer to pay their bills without writing a check through either the Telephone Banking service or by personal computer. We are also developing a product to provide other home and business banking services via the personal computer.

We are committed to the communities in which we live. Lake City Bank and Creighton Brothers co-host the annual Egg Breakfast, which celebrates the important egg industry in our area. The annual Harvest Breakfast with Amish Acres in Elkhart County is an equally popular occasion. Both are attended by hundreds of our customers and friends. The Bank also honors our valued, retired friends with a Valentine party each year. A Leading Ladies Luncheon, fashioned for our female customers is a dynamic, innovative and popular event. It provides an opportunity for guests to interact and to benefit from the economic expertise of the guest speaker.

Lake City Bank hosted two Economic Briefings in 1995. Christopher Chocola, President, Choretime-Brock, Inc., and Wes Stouder, President, Penguin Point Franchise Systems were the local speakers for the Spring and Fall briefings, respectively, which also included a panel of distinguished economists from Indiana University. Business leaders have expressed their appreciation of these economic forecast briefings.

The Lake City Bank has been a successful locally owned and operated financial institution for 124 years. We have about 870 shareholders, most of whom have connections with this area. We have remained independent because of the strong contribution from our employees in satisfying local customers' needs. We have built a strong partnership with our customers. Through convenient locations, local personal touch, and innovative technology, we have resisted the mega-bank impersonal approach to franchise banking. We look forward to future opportunities.

R. Douglas Grant
President

SELECTED FINANCIAL DATA (in thousands except for share and per share data)

	1995	1994	1993	1992	1991
Interest income	$ 42,079	$ 33,655	$ 27,607	$ 27,683	$ 28,245
Interest expense	21,642	14,887	12,022	13,622	16,408
Net interest income	20,437	18,768	15,585	14,061	11,837
Provision for loan losses	120	795	790	1,340	1,970
Net interest income after provision for loan losses	20,317	17,973	14,795	12,721	9,867
Other noninterest income	4,162	4,099	2,813	2,735	1,866
Net gains on sale of real estate mortgages held-for-sale	159	177	676	176	174
Net trading gains (losses)	0	0	0	(2)	36
Net securities gains (losses)	315	(7)	175	323	1,283
Noninterest expense	(16,244)	(14,092)	(12,378)	(10,832)	(9,238)
Income before income tax expense and cumulative effect of change in accounting principle	8,709	8,150	6,081	5,121	3,988
Income tax expense	3,064	3,024	2,171	1,762	1,281
Income before cumulative effect of change in accounting principle	5,645	5,126	3,910	3,359	2,707
Cumulative effect of adopting SFAS No. 109	0	0	325	0	0
Net income	$ 5,645	$ 5,126	$ 4,235	$ 3,359	$ 2,707
Average shares outstanding*	1,438,496	1,438,496	1,438,496	1,438,496	1,438,496
Per average common share outstanding:*					
Income before cumulative effect of change in accounting principle	$ 3.92	$ 3.56	$ 2.72	$ 2.34	$ 1.88
Net income	$ 3.92	$ 3.56	$ 2.94	$ 2.34	$ 1.88
Cash dividends declared	$ 0.74	$ 0.59	$ 0.50	$ 0.42	$ 0.37
Balances at December 31:					
Total assets	$ 568,579	$ 496,963	$ 449,954	$ 362,497	$ 339,458
Total deposits	$ 431,934	$ 396,740	$ 370,032	$ 284,308	$ 265,524
Long-term debt	$ 17,432	$ 17,432	$ 9,300	$ 8,000	$ 0
Total stockholders' equity	$ 36,754	$ 29,889	$ 27,912	$ 23,750	$ 20,991

* Adjusted for a 10 percent stock dividend July 31, 1992.

SELECTED QUARTERLY DATA (in thousands except for per share data) (unaudited)

	1995			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Interest income	$ 11,138	$ 10,961	$ 10,289	$ 9,691
Interest expense	5,796	5,805	5,232	4,809
Net interest income	5,342	5,156	5,057	4,882
Provision for loan losses	30	30	30	30
Noninterest income	1,420	1,144	1,055	1,017
Noninterest expense	4,315	4,016	4,087	3,826
Income tax expense	865	814	648	737
Net income	$ 1,552	$ 1,440	$ 1,347	$ 1,306
Net income per common share	$ 1.08	$ 1.00	$ 0.93	$ 0.91

	1994			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Interest income	$ 9,192	$ 8,647	$ 8,099	$ 7,717
Interest expense	4,220	3,920	3,471	3,276
Net interest income	4,972	4,727	4,628	4,441
Provision for loan losses	180	270	75	270
Noninterest income	911	969	1,050	1,339
Noninterest expense	3,926	3,450	3,445	3,271
Income tax expense	653	724	813	834
Net income	$ 1,124	$ 1,252	$ 1,345	$ 1,405
Net income per common share	$ 0.78	$ 0.87	$ 0.93	$ 0.98

STOCK AND DIVIDEND INFORMATION

The following companies have reported to the Corporation the bid-ask prices for the common stock of Lakeland Financial Corporation as set forth in the table below.

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

Such bid-ask prices are not a definite indication that sales transactions occurred at these prices or that sales transactions did not occur outside of these prices. The trading volume of the Corporation's stock continues to be limited; as a result, these quotations do not necessarily reflect the price at which the Corporation's stock would trade in a more active market.

	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Trading Range (per share):				
1995 - Bid	$ 39.50	$ 36.00	$ 34.00	$ 33.00
Ask	41.50	39.50	37.50	35.50
1994 - Bid	$ 32.50	$ 31.00	$ 29.50	$ 26.00
Ask	34.50	32.50	31.50	29.00
Dividends Declared (per share):				
1995	$ 0.20	$ 0.20	$ 0.17	$ 0.17
1994	0.17	0.14	0.14	0.14

CONSOLIDATED BALANCE SHEETS (in thousands)

	December 31	
	1995	1994
ASSETS		
Cash and due from banks	$ 26,185	$ 21,346
Short-term investments	710	2,801
Total cash and cash equivalents	26,895	24,147
Securities available-for-sale (Note 3) (carried at fair value)	82,120	57,876
Securities held-to-maturity (Note 3) (fair value of $115,328 at 1995 and $103,723 at 1994)	113,888	110,152
Real estate mortgages held-for-sale	145	175
Total loans (Note 4)	327,617	287,956
Less allowance for loan losses (Note 5)	5,472	4,866
Net loans	322,145	283,090
Land, premises and equipment, net (Note 6)	13,736	11,295
Accrued income receivable	4,003	3,464
Other assets	5,647	6,764
Total assets	$ 568,579	$ 496,963
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	$ 67,856	$ 62,830
Interest bearing deposits (Note 7)	364,078	333,910
Total deposits	431,934	396,740
Short-term borrowings		
Federal funds purchased	17,100	4,000
Securities sold under agreements to repurchase (Note 8)	58,151	41,750
U.S. Treasury demand notes	1,880	2,573
Total short-term borrowings	77,131	48,323
Accrued expenses payable	4,481	3,280
Other liabilities	847	1,299
Long-term debt (Note 9)	17,432	17,432
Total liabilities	531,825	467,074
Commitments, off-balance sheet risks and contingencies (Note 15)		
STOCKHOLDERS' EQUITY		
Common stock: $1.00 stated value, 2,750,000 shares authorized, 1,438,496 shares outstanding as of December 31, 1995 and 1994 (Note 1)	1,438	1,438
Additional paid-in capital (Note 1)	7,827	7,827
Retained earnings	26,858	22,279
Unrealized net gain (loss) on securities available-for-sale (Note 1)	631	(1,655)
Total stockholders' equity	36,754	29,889
Total liabilities and stockholders' equity	$ 568,579	$ 496,963

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

CONSOLIDATED STATEMENTS OF INCOME (in thousands except for share data)

	Years Ended December 31		
	1995	1994	1993
NET INTEREST INCOME			
Interest and fees on loans			
Taxable	$ 29,859	$ 23,658	$ 19,946
Tax exempt	257	273	371
Interest and dividends on securities			
Taxable	10,723	8,842	6,459
Tax exempt	1,038	727	644
Interest on short-term investments	202	155	185
Interest on trading account securities	0	0	2
Total interest income	42,079	33,655	27,607
Interest on deposits	16,847	12,108	10,101
Interest on borrowings	4,795	2,779	1,921
Total interest expense	21,642	14,887	12,022
NET INTEREST INCOME	20,437	18,768	15,585
Provision for loan losses (Note 5)	120	795	790
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,317	17,973	14,795
NONINTEREST INCOME			
Trust income	709	609	524
Service charges on deposits	2,262	2,078	1,775
Other income	1,191	1,412	514
Net gains on the sale of real estate mortgages held-for-sale	159	177	676
Net securities gains (losses) (Note 3)	315	(7)	175
Total noninterest income	4,636	4,269	3,664
NONINTEREST EXPENSE			
Salaries and employee benefits (Note 10)	8,521	7,278	6,236
Net occupancy expense	1,229	1,057	996
Equipment costs	1,375	1,001	780
Other expense (Note 11)	5,119	4,756	4,366
Total noninterest expense	16,244	14,092	12,378
Income before income tax expense and cumulative effect of change in accounting principle	8,709	8,150	6,081
Income tax expense (Note 12)	3,064	3,024	2,171
Income before cumulative effect of change in accounting principle	5,645	5,126	3,910
Cumulative effect of adopting SFAS No. 109 (Notes 1 and 12)	0	0	325
NET INCOME	$ 5,645	$ 5,126	$ 4,235
AVERAGE COMMON SHARES OUTSTANDING (Note 1)	1,438,496	1,438,496	1,438,496
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE PER COMMON SHARE (Notes 1 and 12)	$ 3.92	$ 3.56	$ 2.72
CUMULATIVE EFFECT OF ADOPTING SFAS No. 109 PER COMMON SHARE (Notes 1 and 12)	$ 0.00	$ 0.00	$ 0.22
NET INCOME PER COMMON SHARE (Note 1)	$ 3.92	$ 3.56	$ 2.94

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

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Unrealized Net Gain (Loss) on Securities Available-for-Sale	Total Stockholders' Equity
Balances, January 1, 1993	1,438,496	$ 1,438	$ 7,827	$ 14,485	$ 0	$ 23,750
Net income for 1993				4,235		4,235
Net change in unrealized gain (loss) on securities available-for-sale (Note 1)					646	646
Cash dividend declared ($.50 per share)				(719)		(719)
Balances, December 31, 1993	1,438,496	1,438	7,827	18,001	646	27,912
Net income for 1994				5,126		5,126
Net change in unrealized gain (loss) on securities available-for-sale (Note 1)					(2,301)	(2,301)
Cash dividend declared ($.59 per share)				(848)		(848)
Balances, December 31, 1994	1,438,496	1,438	7,827	22,279	(1,655)	29,889
Net income for 1995				5,645		5,645
Net change in unrealized gain (loss) on securities available-for-sale (Note 1)					2,286	2,286
Cash dividend declared ($.74 per share)				(1,066)		(1,066)
Balances, December 31, 1995	1,438,496	$ 1,438	$ 7,827	$ 26,858	$ 631	$ 36,754

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

	Years Ended December 31		
	1995	1994	1993
Cash flows from operating activities			
Net income	$ 5,645	$ 5,126	$ 4,235
Adjustments to reconcile net income to net cash from operating activities			
Cumulative effect of change in accounting principle	0	0	325
Depreciation	1,209	928	797
Provision for loan losses	120	795	790
Write down of other real estate owned	0	0	262
Loans originated for sale	(29,679)	(9,426)	(20,810)
Net gain on sale of loans	(159)	(177)	(676)
Proceeds from sale of loans	29,868	11,619	23,509
Net loss on sale of premises and equipment	0	1	6
Purchases of trading account securities	0	0	(485)
Proceeds from sales of trading account securities	0	0	487
Net gain on sale of securities available-for-sale	(331)	0	(53)
Net (gain) loss on calls of securities held-to-maturity	16	7	(122)
Net securities amortization	180	444	369
Increase (decrease) in taxes payable	(822)	(15)	(969)
(Increase) decrease in income receivable	(539)	(606)	(541)
Increase (decrease) in accrued expenses payable	1,227	340	434
(Increase) decrease in other assets	411	1,735	(94)
Increase (decrease) in other liabilities	888	(495)	246
Total adjustments	2,389	5,150	3,475
Net cash from operating activities	8,034	10,276	7,710
Cash flows from investing activities			
Proceeds from sale of securities held-to-maturity	0	0	6,588
Proceeds from sale of securities available-for-sale	7,563	0	1,613
Proceeds from maturities and calls of securities held-to-maturity	6,268	8,899	17,683
Proceeds from maturities and calls of securities available-for-sale	5,022	6,409	1,123
Purchases of securities available-for-sale	(20,014)	(9,033)	0
Purchases of securities held-to-maturity	(22,900)	(19,494)	(84,976)
Net (increase) decrease in total loans	(39,174)	(27,709)	(8,240)
Purchases of new premises and equipment	(3,650)	(2,490)	(1,602)
Net proceeds (payments) from acquisitions (Note 13)	(1,380)	0	29,839
Net cash from investing activities	(68,265)	(43,418)	(37,972)
Cash flows from financing activities			
Net increase in total deposits	35,194	26,708	37,569
Proceeds from short-term borrowings	522,102	395,939	327,360
Payments on short-term borrowings	(493,294)	(385,553)	(332,700)
Proceeds from long-term borrowings	0	8,132	1,300
Dividends paid	(1,023)	(806)	(676)
Net cash from financing activities	62,979	44,420	32,853
Net increase (decrease) in cash and cash equivalents	2,748	11,278	2,591
Cash and cash equivalents at beginning of the year	24,147	12,869	10,278
Cash and cash equivalents at end of year	$ 26,895	$ 24,147	$ 12,869
Cash paid during the year for:			
Interest	$ 21,052	$ 14,496	$ 12,254
Income taxes	$ 3,116	$ 3,038	$ 2,490
Securities transferred from held-to-maturity to available-for-sale (Note 1)	$ 12,918	$ 0	$ 0
Loans transferred to other real estate	$ 0	$ 107	$ 420

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:

Lakeland Financial Corporation (the Corporation) is a bank holding company as defined in the Bank Holding Company Act of 1956. The Corporation owns all of the outstanding stock of Lake City Bank (the Bank), a full service commercial bank organized under Indiana law, and conducts no business except that incident to its ownership of the Bank. The Bank is headquartered in Warsaw, Indiana, and has 29 branch offices in eight counties in northern Indiana.

Use of Estimates:

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

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

Principles of Consolidation:

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

Securities:

On December 31, 1993, the Corporation elected to adopt the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Corporation now classifies securities into held-to-maturity, available-for-sale and trading categories. Held-to-maturity securities are those which the Corporation has the positive intent and ability to hold to maturity, and are reported at amortized cost. Available-for-sale securities are those the Corporation may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains and losses included as a separate component of equity, net of tax. Trading securities are bought principally for sale in the near term, and are reported at fair value with unrealized gains and losses included in earnings. Prior to December 31, 1993, securities were reported at amortized cost except for securities held-for-sale, which were reported at the lower of cost or market. This reclassification increased equity by $646,000 at December 31, 1993. Realized gains and losses resulting from the sale of securities are computed by the specific identification method. Interest and dividend income, adjusted by amortization of purchase premium or discount, is included in earnings.

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

Real Estate Mortgages Held-for-Sale:

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

Interest Income on Loans:

Interest is accrued over the loan term based upon the principal balances outstanding. Loans are placed on nonaccrual when interest collection becomes doubtful. Loan fees and related costs are netted and deferred. The deferral is included in loans and recognized in interest income over the loan term on the level yield method.

Concentration of Credit:

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

Allowance for Loan Losses:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Land, Premises and Equipment:

Land, premises, and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed on both straight-line and declining-balance methods based on estimated useful lives of the assets.

Other Real Estate Owned:

Other real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value at the date of acquisition. Any reduction to fair value from the carrying value of the related loan at the time of acquisition is accounted for as a loan loss and charged against the allowance for loan losses. After acquisition, a valuation allowance is recorded through a charge to income for the amount of estimated selling costs. Valuations are periodically performed by management, and valuation allowances are adjusted through a charge to income for changes in fair value or estimated selling costs. Other real estate owned, other than Corporate premises, amounted to $1,109,000, net of a $415,000 valuation allowance and $1,279,000, net of a $445,000 valuation allowance at December 31, 1995 and 1994, respectively, and is included in other assets in the consolidated balance sheets.

Income Taxes:

The Corporation files annual consolidated federal income tax returns. Beginning in 1993, the Corporation adopted the provisions of SFAS No. 109, Accounting for Income Taxes. The Corporation records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future tax consequences of temporary differences between carrying amounts and tax bases of assets and liabilities, using enacted tax rates. The effect of the adoption of SFAS No. 109, as of January 1, 1993, is shown as the cumulative effect of an accounting change in the 1993 income statement.

Dividend Restriction:

The Bank is subject to banking regulations which require the maintenance of certain capital levels and which may limit the amount of dividends which may be paid to the Corporation. At December 31, 1995, approximately $4,939,000 of the Bank's retained earnings is available for distribution to the Corporation without prior regulatory approval.

Earnings Per Share:

Earnings per common share are based upon the weighted average number of common shares outstanding.

Pension Plan:

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

Statement of Cash Flows:

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

Reclassifications:

Certain amounts appearing in the financial statements and notes thereto for the years ended December 31, 1994 and 1993, have been reclassified to conform with the December 31, 1995, presentation.

NOTE 2 - PENDING ACCOUNTING CHANGES

SFAS No. 122 on accounting for mortgage servicing rights was issued in May, 1995. The Corporation will adopt this Statement on January 1, 1996, as required. SFAS No. 122 eliminates the accounting distinction between originated and purchased mortgage servicing rights. Beginning in 1996, when a loan is originated with the intent to sell, a separate asset will be recognized for the mortgage servicing right, which is consistent with the current treatment of purchased mortgage servicing rights. SFAS No. 122 also changes the manner in which impairment of capitalized mortgage servicing rights is recognized. Impairment will be recognized using the fair value of individual stratum of servicing rights based upon the underlying risk characteristics of the serviced loan portfolio, compared to an aggregate portfolio approach under existing accounting guidance.

Based on its current volume of mortgage banking activity, the Corporation does not expect SFAS No. 122 to have a significant impact on its financial condition and operations for 1996. The impact in subsequent years is difficult to predict. SFAS No. 122 will initially result in the recognition of larger gains on sales of mortgage loans, because of the initial capitalization of the originated mortgage servicing right asset. However, the larger gains on sales of loans will be offset by the future amortization of the mortgage servicing right asset. In addition, the valuation allowance on impaired mortgage servicing rights may fluctuate significantly in the future, because the impairment evaluation is based on assumed loan prepayment and default rates, interest rates, and other factors.

NOTE 3 - SECURITIES

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

	Amortized Cost	Unrealized Gross Gains	Unrealized Gross Losses	Fair Value
	(in thousands)			
Securities Available-for-Sale at December 31, 1995				
U.S. Treasury securities	$ 27,549	$ 378	$ (83)	$ 27,844
U.S. Government agencies and corporations	2,150	41	0	2,191
Mortgage-backed securities	48,302	785	(244)	48,843
State and municipal securities	2,076	100	0	2,176
Other debt securities	999	67	0	1,066
Total securities available-for-sale at December 31, 1995	$ 81,076	$ 1,371	$ (327)	$ 82,120
Securities Held-to-Maturity at December 31, 1995				
U.S. Treasury securities	$ 13,611	$ 34	$ (69)	$ 13,576
U.S. Government agencies and corporations	2,898	141	(6)	3,033
Mortgage-backed securities	77,319	878	(726)	77,471
State and municipal securities	19,047	1,066	(36)	20,077
Other debt securities	1,013	158	0	1,171
Total securities held-to-maturity at December 31, 1995	$ 113,888	$ 2,277	$ (837)	$ 115,328
Securities Available-for-Sale at December 31, 1994				
U.S. Treasury securities	$ 26,960	$ 2	$ (1,046)	$ 25,916
U.S. Government agencies and corporations	1,000	0	0	1,000
Mortgage-backed securities	30,734	1	(1,748)	28,987
State and municipal securities	887	46	0	933
Other debt securities	999	27	0	1,026
Total debt securities	60,580	76	(2,794)	57,862
Equity securities	36	0	(22)	14
Total securities available-for-sale at December 31, 1994	$ 60,616	$ 76	$ (2,816)	$ 57,876
Securities Held-to-Maturity at December 31, 1994				
U.S. Treasury securities	$ 14,714	$ 0	$ (838)	$ 13,876
U.S. Government agencies and corporations	2,034	4	(1)	2,037
Mortgage-backed securities	78,781	22	(5,130)	73,673
State and municipal securities	13,608	73	(620)	13,061
Other debt securities	1,015	61	0	1,076
Total securities held-to-maturity at December 31, 1994	$ 110,152	$ 160	$ (6,589)	$ 103,723

Information regarding the amortized cost and fair value of debt securities by maturity as of December 31, 1995, 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, 1995		Held-to-Maturity December 31, 1995	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$ 1,100	$ 1,121	$ 2,556	$ 2,544
Due after one year through five years	30,089	30,516	16,395	16,710
Due after five years through ten years	100	100	1,193	1,220
Due after ten years	1,485	1,540	16,425	17,383
	32,774	33,277	36,569	37,857
Mortgage-backed securities	48,302	48,843	77,319	77,471
Total debt securities	$ 81,076	$ 82,120	$ 113,888	$ 115,328

NOTE 3 - SECURITIES (continued)

In 1995, proceeds from the sales and calls of securities available-for-sale amounted to $7,563,000 with gross gains of $348,000 and gross losses of $17,000. The proceeds from calls of securities held-to-maturity amounted to $414,000 with gross gains of $0 and gross losses of $16,000. There were no sales or calls of securities available-for-sale in 1994. During 1994, the proceeds from the call of securities held-to-maturity amounted to $249,000 with gross gains of $10,000 and gross losses of $17,000. Securities with a carrying value of $100,572,000 were pledged as of December 31, 1995, as collateral for deposits of public funds, securities sold under agreements to repurchase and for other purposes as permitted or required by law.

NOTE 4 - TOTAL LOANS

Total loans outstanding as of December 31, 1995 and 1994, consist of the following:

	1995	1994
	(in thousands)	
Commercial and industrial loans	$173,368	$154,326
Agri-business and agricultural loans	22,627	22,206
Real estate mortgage loans	54,724	46,870
Real estate construction loans	1,224	426
Installment loans and credit cards	75,674	64,128
Total loans	$327,617	$287,956

Loans aggregating $60,000 or more with executive officers and directors (including their associates) amounted to $6,028,000 and $7,109,000 as of December 31, 1995 and 1994, respectively. During 1995, new loans or advances were $17,334,000, loan repayments were $18,367,000 and other changes were $48,000.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans at December 31 are summarized as follows:

	1995	1994
	(in thousands)	
Mortgage loan portfolios serviced for:		
FHLMC	$ 35,899	$ 28,909
Other investors	1,218	1,456
Total mortgage loan portfolios serviced	$ 37,117	$ 30,365

Income earned for loan servicing was $82,000, $68,000 and $41,000 for 1995, 1994 and 1993, respectively.

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The following is an analysis of the allowance for loan losses for 1995, 1994 and 1993:

	1995	1994	1993
		(in thousands)	
Balance, January 1	$ 4,866	$ 4,010	$ 3,095
Allowance related to acquisitions	746	0	250
Provision for loan losses	120	795	790
Less: Loans charged-off (recovered) (net of recoveries of $95 in 1995; $196 in 1994; and $103 in 1993)	260	(61)	125
Balance, December 31	$ 5,472	$ 4,866	$ 4,010

Nonaccrual loans at December 31, 1995, 1994 and 1993, totaled $532,000, $18,000 and $0, respectively. Interest lost on nonaccrual loans was approximately $29,000 for 1995. The amount of interest lost for 1994 and 1993, was immaterial. Loans renegotiated as troubled debt restructuring totaled $1,432,000 and $1,484,000 as of December 31, 1995 and 1994, respectively. Interest income of $96,000 and $82,000 was recognized in 1995 and 1994. Had these loans been performing under the original contract terms, an additional $53,000 would have been reflected in interest income during 1995 and $31,000 in 1994. The Corporation is not committed to lend additional funds to debtors whose loans have been modified. During 1995, the Corporation had no loans meeting the definition of impaired under SFAS No. 114.

NOTE 6 - LAND, PREMISES AND EQUIPMENT, NET Land, premises and equipment and related accumulated depreciation were as follows at December 31:

	1995	1994
	(in thousands)	
Land	$ 3,648	$ 2,872
Buildings	10,568	8,824
Equipment	7,069	6,117
Total cost	21,285	17,813
Less accumulated depreciation	7,549	6,518
Land, premises and equipment, net	$ 13,736	$ 11,295

NOTE 7 - INTEREST BEARING DEPOSITS

The following is an analysis of interest bearing deposits as of December 31:

	1995	1994
	(in thousands)	
Super NOW	$ 41,985	$ 44,335
Insured money market	14,151	17,993
Savings	42,904	52,091
Time: In denominations under $100,000	202,675	162,732
In denominations of $100,000 or more	62,363	56,759
Total interest bearing deposits	$364,078	$333,910

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 Bank's trade area. Liabilities and the related collateral consisting of U.S. Treasury securities and mortgage-backed securities as of December 31, 1995 were as follows:

			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	$ 19,114	4.36%	$ 0	$ 0	$ 19,439	$ 19,481
Less than 90 days	19,627	5.72	8,298	8,407	11,966	12,186
Over 90 days	19,410	5.98	14,311	14,348	5,920	6,036
Total	$ 58,151	5.35%	$ 22,609	$ 22,755	$ 37,325	$ 37,703

As indicated in Note 3, securities are pledged to meet both current and potential collateral requirements applicable to deposits of public funds, securities sold under agreements to repurchase and for other purposes permitted or required by law. The Bank 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, 1995, there were no material amounts of securities at risk with any one customer.

NOTE 9 - LONG -TERM DEBT

Long-term debt at December 31 consisted of:

	1995	1994
	(in thousands)	
Federal Home Loan Bank of Indianapolis Notes, 5.55%, Due January 2, 1996	$ 8,000	$ 8,000
Federal Home Loan Bank of Indianapolis Notes, 5.59%, Due January 14, 1997	8,132	8,132
Federal Home Loan Bank of Indianapolis Notes, 6.15%, Due June 24, 2003	1,300	1,300
Total	$ 17,432	$ 17,432

All notes require monthly interest payments and are secured by residential real estate loans with a carrying value of $26,179,000 at December 31, 1995.

NOTE 10 - EMPLOYEE BENEFIT PLANS

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

	1995	1994
	(in thousands)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $949,000 for 1995 and $640,000 for 1994	$ 1,060	$ 719
Projected benefit obligation for service rendered to date	$ 1,355	$ 949
Plan assets at fair value (primarily money market funds and equity and fixed income investments)	(1,131)	(893)
Unrecognized gains (losses)	(29)	193
Unrecognized prior service cost	31	33
Accrued balance sheet pension liability	$ 226	$ 282

Net pension expense includes the following:

	1995	1994	1993
		(in thousands)	
Service cost for benefits earned	$ 116	$ 119	$ 113
Interest cost	77	66	58
Actual return on plan assets	(97)	(56)	(52)
Net amortization and deferrals	19	(3)	4
Net pension expense	$ 115	$ 126	$ 123

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

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

Under a 401(k) profit sharing plan, the Corporation contributions are based upon the rate of return on January 1 stockholders' equity. The expense recognized was $455,000, $370,000 and $332,000 in 1995, 1994 and 1993, respectively.

NOTE 11 - OTHER EXPENSE

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

	1995	1994	1993
		(in thousands)	
Regulatory fees and FDIC insurance	$ 616	$ 904	$ 783
Data processing fees and supplies	913	769	873
Office supplies	632	519	440
Telephone and postage	616	535	466
Miscellaneous	2,342	2,029	1,804
Total other expense	$ 5,119	$ 4,756	$ 4,366

NOTE 12 - INCOME TAXES

Effective January 1, 1993, the Corporation adopted SFAS No. 109, Accounting for Income Taxes. The adjustment of $325,000 to apply the new accounting method is included in income for the year ended December 31, 1993. The change in method had no affect on income before cumulative effect of the change in accounting principle in 1993.

Income tax expense consists of the following:

	1995	1994	1993
		(in thousands)	
Current federal income tax expense	$ 2,297	$ 2,301	$ 1,831
Deferred federal income tax expense (credit)	5	11	(158)
Current state income tax expense	734	673	600
Deferred state income tax expense (credit)	28	39	(102)
Total income tax expense	$ 3,064	$ 3,024	$ 2,171

Income tax expense (credit) included $114,000, $(34,000) and $58,000 applicable to security transactions for 1995, 1994 and 1993, respectively. The differences between financial statement tax expense and amounts computed by applying the statutory federal income tax rate of 34% for all three years to income before income taxes are as follows:

NOTE 12 - INCOME TAXES (continued)

	1995	1994	1993
		(in thousands)	
Income taxes at statutory federal rate	$ 2,961	$ 2,771	$ 2,068
Increase (decrease) in taxes resulting from:			
Tax exempt income	(433)	(338)	(339)
Nondeductible expense	119	73	45
State income tax, net of federal tax effect	503	471	328
Net operating loss, Gateway	(29)	0	0
Tax credits	(30)	0	0
Other	(27)	47	69
Total income tax expense	$ 3,064	$ 3,024	$ 2,171

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

	1995		1994	
	Federal	State	Federal	State
		(in thousands)		
Deferred tax assets				
Bad debts	$ 1,344	$ 445	$ 1,247	$ 392
ORE	142	35	194	48
Pension and deferred compensation liability	289	72	255	64
Deferred loan fees	83	21	144	36
Net operating loss carryforward	385	0	0	0
Other	98	23	10	2
	2,341	596	1,850	542
Deferred tax liabilities				
Depreciation	409	102	243	61
State taxes	190	0	146	0
Other	320	26	356	140
	919	128	745	201
Valuation allowance	158	0	0	0
Net deferred tax asset	$ 1,264	$ 468	$ 1,105	$ 341

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

In addition to the net deferred tax assets included above, income taxes (credits) allocated to the unrealized net gain (loss) account included in equity were $414,000 and $(1,085,000) for 1995 and 1994, respectively.

NOTE 13 - ACQUISITIONS

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

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

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

NOTE 14 - PARENT COMPANY STATEMENTS

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

CONDENSED BALANCE SHEETS

	December 31 1995	December 31 1994
	(in thousands)	
ASSETS		
Deposits with Lake City Bank	$ 25	$ 15
Investment in subsidiary	36,987	30,085
Other assets	11	12
Total assets	$ 37,023	$ 30,112
LIABILITIES		
Dividends payable and other liabilities	$ 269	$ 223
STOCKHOLDERS' EQUITY	36,754	29,889
Total liabilities and stockholders' equity	$ 37,023	$ 30,112

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31 1995	1994	1993
	(in thousands)		
Dividends from Lake City Bank	$ 928	$ 982	$ 458
Interest on deposits and repurchase agreements, Lake City Bank	6	3	0
Miscellaneous income	10	22	(10)
Equity in undistributed income of subsidiary	4,719	4,168	3,782
Miscellaneous expense (credit)	14	68	(2)
INCOME BEFORE INCOME TAXES	5,649	5,107	4,232
Income tax expense (credit)	4	(19)	(3)
NET INCOME	$ 5,645	$ 5,126	$ 4,235

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31 1995	1994	1993
	(in thousands)		
Cash flows from operating activities			
Net income	$ 5,645	$ 5,126	$ 4,235
Adjustments to net cash from operating activities			
Equity in undistributed income of subsidiary	(4,719)	(4,168)	(3,782)
Other changes	3	18	36
Net cash from operating activities	929	976	489
Cash flows from investing activities	104	(137)	0
Cash flows from financing activities	(1,023)	(848)	(716)
Net increase (decrease) in cash and cash equivalents	10	(9)	(227)
Cash and cash equivalents at beginning of the year	15	24	251
Cash and cash equivalents at end of the year	$ 25	$ 15	$ 24

NOTE 15 - COMMITMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES

During the normal course of business, the Bank 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, 1995 and 1994, were as follows:

	1995		1994	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commercial loan lines of credit	$ 2,558	$ 100,033	$ 3,267	$ 71,075
Commercial loan standby letters of credit	0	4,608	0	6,807
Real estate mortgage loans	699	199	0	485
Real estate construction mortgage loans	0	963	0	460
Credit card open-ended revolving lines	4,153	0	4,444	0
Home equity mortgage open-ended revolving lines	0	13,955	0	11,317
Consumer loan open-ended revolving lines	0	2,556	0	2,384
Total	$ 7,410	$ 122,314	$ 7,711	$ 92,528

At December 31, 1995, the range of interest rates for commercial loan commitments with a fixed rate was 6.99 to 12.00 percent. The range of interest rates for commercial loan commitments with variable rates was 6.89 to 12.50 percent. The index on variable rate commercial loan commitments is principally the Bank's base rate.

Commitments, excluding open-ended revolving lines, generally have fixed expiration dates of one year or less. Credit card open-ended revolving lines of credit are normally reviewed bi-annually and other personal lines of credit are normally reviewed annually. Since many commitments expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank 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 Bank'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 16 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table contains the estimated fair values and the related carrying values of the Corporation's financial instruments at December 31, 1995 and 1994. Items which are not financial instruments are not included.

	1995		1994	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents	$ 26,895	$ 26,895	$ 24,147	$ 24,147
Real estate mortgages held-for-sale	145	147	175	179
Securities available-for-sale	82,120	82,120	59,600	59,600
Securities held-to-maturity	113,888	115,328	110,152	103,723
Loans, net	322,145	322,692	283,090	279,035
Accrued income receivable	4,003	4,003	3,464	3,464
Certificates of deposit	(265,038)	(266,600)	(219,491)	(218,739)
All other deposits	(166,896)	(166,896)	(177,249)	(177,249)
Securities sold under agreements to repurchase	(58,151)	(58,496)	(41,750)	(41,833)
Other short-term debt	(18,980)	(18,980)	(6,573)	(6,573)
Long-term debt	(17,432)	(17,505)	(17,432)	(16,337)
Accrued expenses payable	(4,481)	(4,481)	(3,280)	(3,280)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 1995 and 1994. The estimated fair value for cash, cash equivalents and accruals is considered to approximate cost. Real estate mortgages held-for-sale are based upon either the actual contracted price for those loans sold but not yet delivered, or the current FHLMC price for normal delivery of mortgages with similar coupons and maturities at year-end. The estimated fair value for securities is based on quoted market rates for individual securities or for equivalent quality, coupon and maturity securities. The estimated fair value of loans is based on estimates of the rate the Bank would charge for similar such loans at December 31, 1995 and 1994, applied for the time period until estimated repayment. The estimated fair value for demand and savings deposits is based on their carrying value. The estimated fair value for certificates of deposit and borrowings is based on estimates of the rate the Bank would pay on such deposits or borrowings at December 31, 1995 and 1994, applied for the time period until maturity. The estimated fair value of short-term borrowed funds is considered to approximate cost. The estimated fair value of other financial instruments and off-balance sheet loan commitments approximate cost and are not considered significant to this presentation.

NOTE 16 - FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Bank to have disposed of such items at December 31, 1995 and 1994, 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, 1995 and 1994, should not necessarily be considered to apply at subsequent dates.

In addition, other assets and liabilities of the Bank 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 loan servicing rights, the earnings potential of the Bank's trust department, the trained work force, customer goodwill and similar items.

REPORT OF INDEPENDENT AUDITORS

Stockholders and Board of Directors
Lakeland Financial Corporation
Warsaw, Indiana

We have audited the accompanying consolidated balance sheets of Lakeland Financial Corporation and subsidiary as of December 31, 1995 and 1994, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 1995, 1994 and 1993. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lakeland Financial Corporation and subsidiary as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years ended December 31, 1995, 1994 and 1993, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 12, the Corporation changed its method of accounting for income taxes in 1993, as discussed in Notes 1 and 3, the Corporation elected to classify its securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115 at December 31, 1993, and as discussed in Note 1, the Corporation adopted the accounting for impaired loans as required by SFAS No. 114, and amended by SFAS No. 118.

CROWE CHIZEK AND COMPANY LLP

South Bend, Indiana
January 19, 1996

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The independent auditors have audited the Corporation's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of the reported operating results and financial position.

The Board of Directors of the Corporation has an Audit Review Committee composed of five non-management Directors. The Committee meets periodically with the internal auditors and the independent auditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

Liquidity

The Corporation manages its primary liquidity position to provide funding at the lowest possible cost, for anticipated loan demand and/or deposit run-off that occurs in the regular course of business. Such sources of liquidity are: Federal fund lines with correspondent banks, advances from the Federal Home Loan Bank, repurchase agreements with local bank customers and cash flow from the securities portfolio. This cash flow from the securities portfolio could total approximately $21.0 million in 1996, given current prepayment assumptions. Additionally, continuous growth into new markets in northern Indiana has diversified the retail deposit base, reducing volatility that might occur in one geographical location.

The Corporation manages a secondary liquidity position to provide funding in the event of unanticipated loan demand and/or deposit run-off. Management has designated approximately 41.9 percent of its investment portfolio as available for sale (AFS). This designation provides the liquidity to fund abnormal loan demand, or to manage the loss of deposits. The Corporation's securities are all very high quality and easily marketable, with 88 percent either U.S. Treasuries, Federal agency securities or mortgage-backed securities directly or indirectly guaranteed by the Federal government.

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

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

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

During the year ended December 31, 1993, there was a net increase of $2.6 million in cash and cash equivalents. The major uses of cash during the period included the funding of an $8.2 million increase in loans and the purchase of securities totaling $85.0 million. Major sources of funds were: a net increase in cash from operating activities of $7.7 million, proceeds from the sale or maturity of securities totaling $27.0 million, an increase in deposits of $37.6 million, and proceeds from branch acquisitions of $29.8 million.

Asset/Liability Management (ALCO) and Securities

The Board of Directors annually reviews and approves the ALCO policy used to manage interest rate risk. This policy sets guidelines for balance sheet structure that protect the Corporation from excessive net income volatility that could result from changing interest rates. The Corporation uses a GAP report, which details the relative mismatch of asset and liability cash flows occurring in specified time horizons, and a computer program to stress test the balance sheet under a wide variety of interest rate scenarios. This model quantifies the impact on income of such things as: changes in customer preference for bank products, basis risk between the Bank's 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 on page 25, the Corporation's cumulative GAP ratio at December 31, 1995, for the next 12 months is a negative 14.2 percent of total assets. This ratio indicates that the interest margin could be slightly lower if interest rates rise, as compared to flat or falling interest rate environments. The computer model produces a slightly different result, and highlights one of the major problems with GAP analysis. While GAP may provide a basic guide to rate risk exposure in certain rate environments, it cannot effectively provide a dollar margin impact since it ignores the rates on maturing assets and liabilities, the different indexes used to price bank products and the changes in customer preference that occur whenever interest rates change. Factoring all of these things into the computer simulation, the Corporation is slightly exposed to falling rates. That is, the interest margin could be slightly lower if rates fall. The degree of this exposure is well within policy limits.

The Corporation's investment portfolio consists of U.S. Treasuries, agencies, mortgage-backed securities, municipal bonds and corporates. During 1995, purchases have been primarily municipal bonds and mortgage-backed securities. At December 31, 1995, the Corporation's investment in mortgage-backed securities comprised approximately 64 percent of total securities and consisted of CMO's and mortgage pools issued by GNMA, FNMA and FHLMC. As such, these securities are backed directly or indirectly by the Federal government. All mortgage securities are purchased to conform to the FFIEC high risk standards which prohibit the purchase of securities that have excessive price, prepayment, extension and original life risk characteristics. The Corporation uses Bloomberg analytics to evaluate and monitor all purchases. At December 31, 1995, the mortgage securities in the AFS portfolio had a two year average life, with approximately 6 percent price depreciation should rates move up 300 basis points and approximately 4 perccent price appreciation should rates move down 300 basis points. The mortgage securities in the HTM portfolio had a three and one-half year average life and the potential for approximately 9 percent price depreciation should rates increase 300 basis points and approximately 10 percent price appreciation should rates move down 300 basis points. As of December 31, 1995, all mortgage securities continue to be in compliance with FFIEC guidelines, and are performing in a manner consistent with management's original expectations.

Capital Management

The Corporation believes that a strong capital position is vital to long-term earnings and expansion. Currently the Bank 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 Bank attained tier I leverage capital, tier I risk based capital and tier II risk based capital ratios of 6.3 percent, 10.1

percent and 11.4 percent, respectively at December 31, 1995. All three ratios are well above 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 23.0 percent, to $36,754,000 as of December 31, 1995, from $29,889,000 as of December 31, 1994. Total stockholders' equity increased by 31.7 percent or $8,842,000 from $27,912,000 as of December 31, 1993. The 1995 growth of $6,865,000 resulted from the retention of net income of $5,645,000, minus cash dividends declared of $1,066,000 plus the change in the AFS adjustment of $2,286,000, net of tax. The AFS adjustment reflects a 250 basis point decrease in three to five year U. S. Treasury rates during 1995. Since the securities portfolio is primarily fixed rate, a positive equity adjustment should occur whenever interest rates decline. 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 1994 growth of $1,977,000 resulted from the retention of net income of $5,126,000, minus cash dividends declared of $848,000 less the AFS adjustment of $2,301,000. At December 31, 1994, the change in stockholders' equity reflected an AFS adjustment that decreased equity by $2,301,000, as compared to December 31, 1993. This adjustment reflected a 294 basis point increase in three to five year U. S. Treasury rates during 1994.

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

Allowance for Credit Risk

At December 31, 1995, the allowance for loan losses was $5,472,000 or 1.67 percent of total loans outstanding, compared with $4,866,000 or 1.69 percent of total loans outstanding at December 31, 1994. The process of identifying credit losses that may occur based upon current circumstances is subjective. Therefore, the Corporation maintains a general allowance to cover all credit losses within the entire portfolio. The methodology management uses to determine the adequacy of the loan loss reserve is as follows:

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

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

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

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

At December 31, 1995, 70 percent of the Corporation's allowance for loan losses was classified as unallocated. To a large extent, this reflects the growth in total loans over the last three years of $93 million, or about 39.9 percent, and the concentration of this loan growth in the commercial loan portfolio. With this type of commercial loan growth, management believes that it is prudent to continue to provide for loan losses, due to the inherent risk associated with commercial loans.

Inflation

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

Growth and Expansion

The assets of the Corporation increased 14.4 percent, or $71,616,000, to $568,579,000 as of December 31, 1995, from $496,963,000 as of December 31, 1994. Assets at December 31, 1994, increased 10.5 percent, or $47,009,000, from $449,954,000 as of December 31, 1993. The Corporation has been pursuing expansion into contiguous markets since 1990. Most recently, the Corporation acquired the Gateway Bank in LaGrange county (see Note 13 to Consolidated Financial Statements), and opened three additional offices during 1995. Plans call for additional expansion in Elkhart and Noble counties in 1996. Although growth continues to be strong in the traditional markets served by the Bank, much of the growth experienced in 1995 was in the new markets served by the Corporation. The Corporation's market area now includes: Elkhart, Fulton, Kosciusko, LaGrange, Marshall, Noble and Whitley counties. As in the past, the Corporation expects to continue to serve its market by adding new products, offices and ATM's in areas where the demographic trends dictate. This activity will contribute to net income in future years.

Changes in Accounting Methods

At December 31, 1993, the Corporation elected to adopt the provisions of Statement of Financial Accounting Standards (SFAS) No. 115. This deals with the accounting for certain debt and equity securities. Stockholders' equity includes the impact of this accounting standard. During the first quarter of 1993, the Corporation adopted the provisions of SFAS No. 109, Accounting for Income Taxes. Net income in 1993 includes the cumulative impact of this change in accounting standard. Effective January 1, 1995, the Corporation adopted SFAS No. 114, and SFAS No. 118, Accounting by Creditors for Impairment of a Loan. The effect on the Corporation of the adoption of this accounting standard was not material.

Statement of Financial Accounting Standards No. 122 "Accounting for Mortgage Servicing Rights", requires recognition of an asset when servicing rights are retained on in-house originated loans that are sold. Based upon its current volume of mortgage banking activity, The Corporation does not expect SFAS No. 122 to have a significant impact on its financial condition and operations for 1996. The impact in subsequent years is difficult to predict.

RESULTS OF OPERATIONS

1995 vs 1994

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

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

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

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

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

As indicated in the Notes to Consolidated Financial Statements (Notes 1 and 5) and the discussion of Financial Condition above, management maintains the allowance for loan losses at an appropriate level given many different factors. The December 31, 1995, allowance of $5,472,000 is believed by management to be adequate to absorb all potential risk applicable to the classification of loans as loss, doubtful, substandard or special mention. This allowance does not represent or result from trends that will materially adversely impact future operating results, liquidity or capital resources. Net interest income after provision for loan losses increased $2,344,000, or 13.0 percent, to $20,317,000 in 1995, from $17,973,000 in 1994.

Trust income and service charges on deposit accounts, two major components of noninterest income, increased 10.6 percent, or $284,000 in 1995 to $2,971,000 in 1995, from $2,687,000 in 1994. Trust income increased to $709,000 for 1995, as compared to $609,000 for 1994, an increase of 16.4 percent. Service charges on deposit accounts increased 8.9 percent to $2,262,000 in 1995. This increase is reflective of the continued acceptance of the Bank's individual deposit accounts paying fees. Other income decreased by $221,000 when compared to 1994. Other income in 1994 included a one-time event relating to the reversal of certain other real estate valuation allowances that contributed $404,000 to other income. Without that one-time event in 1994, the other income for 1995 would have increased $183,000 over the amount for 1994.

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

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

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

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

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

Other expense increased 7.6 percent, or $363,000, to $5,119,000 for 1995. As indicated in Note 11 to Consolidated Financial Statements, all components of other expense increased from 1994 to 1995 except for Regulatory Fees and FDIC Insurance. During 1995, the FDIC announced that the Bank Insurance Fund reached its capitalization target in May. As a result, the FDIC refunded excess premiums that banks paid from June to September and reduced the FDIC premium rates. This refund and the reduction in FDIC premiums resulted in the $288,000 decrease in Regulatory Fees and FDIC Insurance for 1995 as compared to 1994. The reduced FDIC premiums should have a continued positive effect on these costs.

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

RESULTS OF OPERATIONS

1994 versus 1993

Record assets and earnings characterized 1994. Loans increased 10.7 percent, or $27,771,000, to $287,956,000 at year-end 1994. Total deposits increased 7.2 percent, or $26,708,000, to $396,740,000 at December 31, 1994, while deposits and securities sold under agreement to repurchase increased 9.8 percent, or $39,086,000, to $438,490,000. Net income totaled $5,126,000, surpassing 1993 results by 21.0 percent. On an average daily basis, gross earning assets increased by 22.1 percent and total deposits and purchased funds increased by 22.9 percent. The Prime Bank offices added in late 1993 accounted for approximately two-thirds of this average daily earning asset growth.

Total interest income increased 21.9 percent, or $6,048,000 to $33,655,000 for the year ended December 31, 1994. The 22.1 percent growth in average daily earning assets was solely responsible for this increase, as the overall tax equivalent yield of 7.70 percent on average earning assets in 1994 was unchanged from 1993.

Nonearning assets of the Corporation include nonaccrual loans and investments, other real estate, and repossessions, and amounted to $815,000, $2,379,000 and $3,132,000 as of December 31, 1994, 1993 and 1992, respectively. There was one $18,000 nonaccrual loan at year-end 1994.

Interest expense totaled $14,887,000 in 1994, a 23.8 percent, or $2,865,000 increase over 1993. Average daily deposits and purchased funds increased by 22.9 percent in 1994, and rising interest rates during the year increased the average rate paid on interest bearing liabilities by 3 basis points to 3.44 percent for the year. As interest rates rose during 1994, Bank customers returned to fixed rate certificates of deposit. This shift in mix modestly increased the Bank's overall cost of funds during 1994.

Net interest income increased 20.4 percent, or $3,183,000, to $18,768,000 in 1994, from $15,585,000 in 1993. Net interest income as a percentage of average earning assets was 4.41 percent in 1994. This represented an 8 basis point decline from 4.49 percent in 1993. This reduction was due in equal measure to the modest increase in the cost of funds and a lower level of loan fees.

As indicated in the Notes to Consolidated Financial Statements (Notes 1 and 5), management maintains the allowance for loan losses at an appropriate level given many different factors. The December 31, 1994, allowance for loan losses of $4,866,000 was believed by management to be adequate to absorb all potential inherent risk applicable to the classification of loans as loss, doubtful, substandard or special mention. Net interest income after provision for loan losses increased 21.5 percent, or $3,178,000, to $17,973,000 in 1994, from $14,795,000 in 1993.

Trust income and service charges on deposit accounts, two large components of noninterest income, increased 16.9 percent, or $388,000 to $2,687,000 in 1994, from $2,299,000 in 1993. Trust income totaled $609,000, an increase of 16.2 percent from 1993. This reflected increased corporate trust business. Service charges on deposit accounts increased by 17.1 percent, to $2,078,000 in 1994, reflecting the growth in individual and corporate deposit accounts paying fees. Other income increased $898,000 to $1,412,000 in 1994. A portion of this growth reflected the reversal of certain other real estate valuation allowances totaling $404,000 that were related to two large loans. These situations were resolved in 1994 and the reserves were no longer necessary. Other components of other income such as wire transfer fees, credit card fees and mortgage service fees increased 15.0 percent in 1994.

The Corporation continued its program of originating and selling real estate mortgages in the secondary market. During the course of 1994, the Bank sold approximately $8,800,000 of mortgages through the FHLMC Gold program. Gains on the sale of these loans totaled $177,000, a decrease of $499,000 over 1993. This decrease represented the higher rate environment that substantially reduced the level of home refinancing during the year.

Net investment securities losses totaled $(7,000) in 1994, as compared to net investment security gains of $175,000 in 1993. During 1994, there were no securities sold from either the AFS or HTM portfolios. The small security losses experienced during 1994 were the result of several partial calls on zero coupon bonds.

Salaries and employee benefit costs increased 16.7 percent in 1994, to $7,278,000 from $6,236,000. This increase reflected a 10.8 percent increase in full-time equivalent employees (FTE) in 1994, to 278, and normal annual salary increases. This increase in FTE related to the full year impact of the offices added in Noble county in late 1993 and the two new offices added in 1994. There was also an increase in fringe benefit costs and indirect payroll costs, as some of these programs reflected corporate performance that was at record levels.

Another component of other expense that grew due to expansion was net occupancy expense of premises and equipment costs. These expenses totaled $2,058,000 in 1994, an increase of 15.9 percent over 1993. Again, the additional offices added in 1994, as well as, a full year of expense on the offices added in Elkhart and Noble counties in 1993 contributed to this increase.

As indicated in the Note 11 to Consolidated Financial Statements, all major components of other expense contributed to the 8.9 percent, or $390,000 increase to $4,756,000 for 1994, from $4,366,000 in 1993. Regulatory and FDIC insurance premiums are the largest component of other expense, totaling $904,000 in 1994. This was an increase of $121,000, or 15.5 percent from 1993. This increase reflected the overall growth in deposits. Data processing and supplies were the second largest component of other expense, totaling $766,000 in 1994. This represented a decrease of 11.9 percent, or $104,000 from 1993. Included in the 1993 amount were certain non-recurring expenses related to the acquisition of the branches of Prime Bank.

As a result of all of these factors, income before income tax and cumulative effect of change in accounting principle totaled $8,150,000, an increase of 34.0 percent, or $2,069,000 from the $6,081,000 reported in 1993. Income before cumulative change in accounting principle was $5,126,000, an increase of 31.1 percent, or $1,216,000 over 1993. In the first quarter of 1993, the Corporation applied the provisions of SFAS No. 109, Accounting for Income Taxes. Included in 1993 income is the cumulative adjustment of $325,000 to apply this new accounting method. Net income totaled $5,126,000 in 1994, an increase of 21.0 percent, or $891,000, from $4,235,000 in 1993. On a per share basis, income before cumulative change in accounting principle was $3.56 in 1994, as compared to $2.72 in 1993. Also on a per share basis, net income was $3.56 in 1994, as compared to $2.94 in 1993. Net income of $5,126,000 represents an 18.8 percent return on January 1, 1994, 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, 1995, 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 five years.

	Repricing or Maturing Within		
	6 Months	7-12 Months	1-5 Years
		(in thousands)	
Earning Assets			
Loans	$ 209,596	$ 26,777	$ 79,374
Securities	16,413	11,225	128,619
Short-term investments	512	0	198
Total	226,521	38,002	208,191
Deposits and Purchased Funds			
Transaction accounts	95,469	0	0
Time deposits	116,525	43,239	57,986
Short-term borrowings	68,066	7,540	1,610
Long-term borrowings	8,000	0	8,132
Total	288,060	50,779	67,728
Interest sensitivity GAP	$ (61,539)	$ (12,777)	$ 140,463
Cumulative interest sensitivity GAP	$ (61,539)	$ (74,316)	$ 66,147
Cumulative GAP as percent of earning assets	(11.7)%	(14.2)%	12.6%

TABLE 2 - CAPITAL RATIOS

Regulatory agencies specifically exclude the equity adjustment associated with SFAS No. 115 from the calculation of capital adequacy. The following table presents the Bank's current capital adequacy ratios, as well as the FDIC defined levels to be considered "well-capitalized" and the Bank's current excess capital position in relation to these "well-capitalized" levels.

	Regulatory Capital Ratio		
Ratio	December 31, 1995	Well-Capitalized	Excess Capital
			(in thousands)
Tier I leverage	6.31%	5.00%	$ 7,523
Tier I risk based	10.13%	6.00%	$ 14,763
Tier II risk based	11.38%	10.00%	$ 4,939

LAKELAND FINANCIAL CORPORATION AND LAKE CITY BANK BOARD OF DIRECTORS

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Anna K. Duffin	Civic Leader
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R. Douglas Grant	Chairman and President, Lakeland Financial Corporation and Lake City Bank
Jerry L. Helvey	President, Helvey & Associates, Inc.
Dr. Homer A. Kent	President Emeritus of Grace Theological Seminary and Grace College
J. Alan Morgan	Former President of Zimmer USA and Vice President of Bristol Myers Co.
Richard L. Pletcher	President, Pletcher Enterprises, Inc.
Joseph P. Prout	President, Owens Supermarket, Inc.
Philip G. Spear	Former President, W.R. Thomas Stores, Inc.
Terry L Tucker	President, Maple Leaf Farms, Inc.
G.L.White	Former President, United Telephone Company of Indiana

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William A. Henthorn	Executive Vice President
Paul S. Siebenmorgen	Executive Vice President
Terry M. White	Secretary and Treasurer
James J. Nowak	Assistant Treasurer

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William A. Henthorn	Executive Vice President
Paul S. Siebenmorgen	Executive Vice President
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David A. Bickel	Vice President
James R. Cowan	Vice President
Michael E. Gavin	Vice President
William D. Leedy	Vice President
J. Randall Leininger	Vice President
H.A. "Rocky" Meyer	Vice President
Willard N. Schieler	Vice President
Thomas G. Stark	Vice President
James C. Stout	Vice President
Randal U. Vutech	Vice President
Edward D. Jarrett	Assistant Vice President
Chad D. Brouyette	Commercial Banking Officer
Brent E. Hoffman	Commercial Banking Officer
J. Chad Stoltzfus	Commercial Banking Officer
Michael A. Zimmerman	Commercial Banking Officer
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Max A. Mock	Vice President
Jeannine D. Knowles	Assistant Vice President
Shelley A. Moore	Trust Operations Officer
Connie Miller	Trust Officer
Investments	
Dennis E. Cultice	Senior Vice President
Anne M. Bailey	Assistant Vice President
Office Administration	
Walter L. Weldy	Senior Vice President
Pamela J. Cooper	Vice President
Timothy L. Sutton	Vice President
Peggy A. Guyas	Assistant Vice President
Jeannine P. Cooley	Teller Training Officer
Retail Services	
Kevin L. Deardorff	Senior Vice President
Dale L. Cramer	Vice President
Thomas P. Frantz	Vice President
Burl Nifong	Vice President
Janet K. Anderson	Assistant Vice President
Barry A. Bailey	Assistant Vice President
Dennis E. Dolby	Assistant Vice President
Glenn A. Goudey	Assistant Vice President
April J. Gayton	Mortgage Banking Officer
Jill L. Warstler	Retail Banking Officer
Marketing and Human Resources	
D. Jean Northenor	Senior Vice President
Gregory D. Lawrence	Vice President
Cathy L. Teghtmeyer	Vice President
Paul S. Purvis	Assistant Vice President
Bettie S. Moore	Assistant Human Resource Officer
Operations	
E. Ray Younce	Senior Vice President
Judy K. Harvey	Vice President
Lisa M. Bicknese	Assistant Vice President
Ruth A. Hutcherson	Assistant Vice President
Vicki D. Martin	Assistant Vice President
Rebecca M. Siery	Assistant Vice President
William L. Hilliard	Operations Officer
Linda A. Owens	Operations Officer
Angela K. Ritchey	Operations Officer
Linda Swoverland	Operations Officer
Financial	
Terry M. White	Senior Vice President
James J. Nowak	Vice President and Controller
Jill A. Hester	Assistant Vice President
Audit	
Betty L. McHenry	Senior Vice President and Auditor
Kris J. Kerlin	Assistant Vice President
Cynthia A. Studebaker	Assistant Auditor

OFFICES

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Argos	Michael D. Burroughs	Assistant Vice President
Bremen	Matthew K. Bixel	Vice President
Columbia City	Lisa A. Hockemeyer	Assistant Vice President
Concord	Jeri L. Yoder	Assistant Vice President
Cromwell	Jerry L. Stoner	Retail Banking Officer
Elkhart	Rosalie M. Smith	Vice President
Elkhart East	Mervin "Bud" Hammon	Assistant Vice President
Goshen Downtown	Thomas E. Marquis	Assistant Vice President
Goshen South	Clarence J. Yoder	Vice President
Kendallville	Duane Smith	Vice President
LaGrange	Michael P. Schlemmer	Vice President
Ligonier	Craig R. Atz	Vice President
Mentone	Karen A. Francis	Assistant Vice President
Middlebury	Jerry S. Troyer	Vice President
Milford	Jack A. Heeter	Assistant Vice President
Nappanee	Larry L. Penrod	Vice President
North Webster	Jeanne G. Bowen	Vice President
Pierceton	Pamela J. Messmore	Office Manager
Roann	Merrill Templin	Assistant Vice President
Rochester	Gail D. Law	Assistant Vice President
Shipshewana	John R. Munsell	Assistant Vice President
Silver Lake	Deborah A. Lotz	Assistant Vice President
Syracuse	Donna J. Beck	Assistant Vice President
Wabash North	T.F. "Bob" Fuller	Vice President
Wabash South	Jody A. Slacian	Assistant Office Manager
Warsaw Downtown	Traci Dahlinger	Office Manager
Warsaw East	Tricia G. Hess	Office Manager
Warsaw West	Tricia G. Hess	Office Manager
Winona Lake	Allan L. Disbro	Vice President

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE 1995 REPORT TO SHAREHOLDERS AND THE 1995 FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR
DEC-31-1995
DEC-31-1995
26,185
240
470
0
82,120
113,888
115,328
327,762
5,472
568,579
431,934
77,131
5,328
17,432
0
0
1,438
35,316
568,579
30,116
11,761
202
42,079
16,847
21,642
20,437
120
315
16,244
8,709
5,645
0
0
5,645
3.92
3.92
4.09
532
192
1,432
0
4,866
355
95
5,472
1,411
0
4,061