

FORM 10-K

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

For the fiscal year ended December 31, 2003

Commission file number 0-11487

LAKELAND FINANCIAL CORPORATION

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

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

Telephone (574) 267-6144

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

Common Stock, no par value
(Title of class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K(Section 229.405 of this chapter) is not contained herein and
will not be contained, to the best of the registrant's knowledge, in
definitive proxy or information statements incorporated by reference in Part
III of this Form 10-K or any amendment to this Form 10-K.[]

Indicate by check mark whether the registrant is an accelerated filer
(as defined in Rule 12b-2 of the Act). Yes X No ___

The aggregate market value of the voting and non-voting common equity held by
non-affiliates of the registrant, based on the last sales price quoted on the
Nasdaq Stock Market on June 30, 2003, the last business day of the
registrant's most recently completed second fiscal quarter, was approximately
\$159,636,237.

Number of shares of common stock outstanding at February 25, 2004: 5,811,094

DOCUMENTS INCORPORATED BY REFERENCE

Part III - Portions of the Proxy Statement for the Annual Meeting of
Shareholders mailed on March 5, 2004 are incorporated by reference into Part
III hereof.

LAKELAND FINANCIAL CORPORATION
Annual Report on Form 10-K
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PART I

ITEM 1. BUSINESS

The Company was incorporated under the laws of the State of Indiana on February 8, 1983. As used herein, the term "Company" refers to Lakeland Financial Corporation, or if the context dictates, Lakeland Financial Corporation and its wholly-owned subsidiary, Lake City Bank, an Indiana state bank headquartered in Warsaw, Indiana. Also included in the consolidated financial statements is LCB Investments Limited, a wholly-owned subsidiary of Lake City Bank which is a Bermuda corporation that manages a portion of the Bank's investment portfolio. All intercompany transactions and balances are eliminated in consolidation.

General

Company's Business. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended. The Company owns all of the outstanding stock of Lake City Bank, Warsaw, Indiana, a full service commercial bank organized under Indiana law (the "Bank"). In trust, the Bank recognizes a wholly-owned subsidiary, LCB Investments Limited, which manages a portion of the Bank's investment portfolio. The Company conducts no business except that incident to its ownership of the outstanding stock of the Bank and the operation of the Bank.

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

The Bank's main banking office is located at 202 East Center Street, Warsaw, Indiana. As of December 31, 2003 the Bank had 43 offices in twelve counties throughout northern Indiana.

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

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

Expansion Strategy. The Company's expansion strategy is driven primarily by the potential for increased penetration in existing markets where opportunities for market share growth exists. Additionally, the Company considers growth in new markets with a close geographic proximity to its current operations. These markets are considered when the Company believes they would be receptive to its strategic plan to deliver broad based financial services with a local flavor. The Company has recently focused on growth through de novo branching in locations that management believes have potential for creating new market opportunities or for further penetrating existing markets. In new markets, the Company believes it is critical to attract experienced local management with a similar philosophy in order to provide a basis for success.

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

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

Forward-looking Statements

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

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

- o The strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations which may be less favorable than expected and may result in, among other things, a deterioration in the credit quality and value of the Company's assets.
- o The economic impact of past and any future terrorist attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks.
- o The effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters.
- o The effects of changes in interest rates (including the effects of changes in the rate of prepayments of the Company's assets) and the policies of the Board of Governors of the Federal Reserve System.
- o The ability of the Company to compete with other financial institutions as effectively as the Company currently intends due to increases in competitive pressures in the financial services sector.
- o The inability of the Company to obtain new customers and to retain existing customers.
- o The timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet.

- o Technological changes implemented by the Company and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to the Company and its customers.
- o The ability of the Company to develop and maintain secure and reliable electronic systems.
- o The ability of the Company to retain key executives and employees and the difficulty that the Company may experience in replacing key executives and employees in an effective manner.
- o Consumer spending and saving habits, which may change in a manner that affects the Company's business adversely.
- o Business combinations and the integration of acquired businesses, which may be more difficult or expensive than expected.
- o The costs, effects and outcomes of existing or future litigation.
- o Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board.
- o The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

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

Business Developments

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

Lakeland Statutory Trust II (the "Trust"), a statutory business trust, was formed under Connecticut law pursuant to a trust agreement dated October 1, 2003 and a certificate of trust filed with the Connecticut Secretary of State on October 1, 2003. Through a private placement, the trust issued \$30.0 million in trust preferred securities. The Trust exists for the exclusive purposes of (i) issuing the trust securities representing undivided beneficial interests in the assets of the Trust, (ii) investing the gross proceeds of the trust securities in the subordinated debentures issued by the Company, and (iii) engaging in only those activities necessary, advisable, or incidental thereto. The subordinated debentures are the only assets of the Trust, and payments under the subordinated debentures are the only revenue of the Trust. The Trust has a term of 35 years, but may be terminated earlier as provided in the trust agreement.

Competition

The Bank was originally organized in 1872 and has continuously operated under the laws of the State of Indiana since its organization. The Bank's activities cover all phases of commercial banking, including checking accounts, savings accounts, time deposits, the sale of securities under agreements to repurchase, commercial and agricultural lending, direct and indirect consumer lending, real estate mortgage lending, safe deposit box services and trust and brokerage services. The interest rates for both deposits and loans, as well as the range of services provided, are nearly the same for all banks competing within the Bank's service area.

The Bank competes for loans principally through a high degree of customer contact, timely loan review and approval, market-driven competitive loan pricing in certain situations and the Bank's reputation throughout the region. The Bank believes that its convenience, quality service and hometown

approach to banking enhances its ability to compete favorably in attracting and retaining individual and business customers. The Bank actively solicits deposit-related customers and competes for customers by offering personal attention, professional service and competitive interest rates.

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

The Bank competes with other major banks for large commercial deposit and loan accounts. The Bank is presently subject to an aggregate maximum loan limit to any single account pursuant to Indiana law. The Bank currently enforces an internal limit of \$12.0 million, which is less than the amount permitted by law. This maximum might occasionally limit the Bank from providing loans to those businesses or personal accounts whose borrowings periodically exceed this amount. In the event this were to occur, the Bank maintains correspondent relationships with other financial institutions. The Bank may participate with other banks in the placement of large borrowings in excess of its lending limit. The Bank is also a member of the Federal Home Loan Bank of Indianapolis in order to broaden its mortgage lending and investment activities and to provide additional funds, if necessary, to support these activities.

Foreign Operations

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

Employees

At December 31, 2003, the Company, including its subsidiaries, had 426 full-time equivalent employees. Benefit programs include a pension plan, 401(k) plan, group medical insurance, group life insurance and paid vacations. Effective April 1, 2000, the defined benefit pension plan was frozen and employees can no longer accrue new benefits under that plan. The Bank is not a party to any collective bargaining agreement, and employee relations are considered good. The Company also has a stock option plan under which stock options may be granted to employees and directors.

Internet Website

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

General

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

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

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

Recent Regulatory Developments

National Bank Preemption. On January 7, 2004, the Office of the Comptroller of the Currency (the "OCC") issued two final rules that clarify the federal character of the national banking system. The first rule provides that, except where made applicable by federal law, state laws that obstruct, impair or condition national banks' ability to fully exercise their deposit-taking, lending and operational powers are not applicable to national banks. That rule further provides that the following types of state laws apply to national banks to the extent that they only incidentally affect the exercise of national banks' deposit-taking, lending and operational powers: contract, criminal, taxation, tort, zoning and laws relating to certain homestead rights, rights to collect debts, acquisitions and transfers of property and other laws as determined to apply to national banks by the OCC. The second rule affirms that, under federal law, with some exceptions, the OCC has exclusive visitorial authority (the power to inspect, examine, supervise and regulate) with respect to the content and conduct of activities authorized for national banks. These controversial rules give national banks, especially those that operate in multiple states, a significant competitive advantage over state-chartered banks and are therefore likely to be challenged by individuals and organizations that represent the interests of individual states and state-chartered banks. Both the U.S. House Committee on Financial Services and the New York Attorney General have already initiated such challenges.

FACT Act. On December 4, 2003, President Bush signed into law the Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act"), which contains numerous amendments to the Fair Credit Reporting Act relating to matters including identity theft and privacy. Among its other provisions, the FACT Act requires financial institutions: (i) to establish an identity theft prevention program; (ii) to enhance the accuracy and integrity of information furnished to consumer reporting agencies; and (iii) to allow customers to prevent financial institution affiliates from using, for marketing solicitation purposes, transaction and experience information about the customers received from the financial institution. The FACT Act also requires the federal banking regulators, and certain other agencies, to promulgate regulations to implement its provisions. The various provisions of the FACT Act contain different effective dates including March 31, 2004, for those

provisions of the FACT Act that do not require significant changes to business procedures and December 1, 2004, for certain other provisions that will require significant business procedure changes.

The Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). In accordance with Federal Reserve policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require. The Company is also subject to regulation by the DFI under Indiana law.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve to be "so closely related to banking ... as to be a proper incident thereto." This authority would permit the Company to engage in a variety of banking-related businesses, including the operation of a thrift, consumer finance, equipment leasing, the operation of a computer service bureau (including software development), and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. As of the date of this filing, the Company has neither applied for nor received approval to operate as a financial holding company.

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

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

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

The risk-based and leverage standards described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 capital less all intangible assets), well above the minimum levels. As of December 31, 2003, the Company had regulatory capital in excess of the Federal Reserve's minimum requirements.

Dividend Payments. The Company's ability to pay dividends to its shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As an Indiana corporation, the Company is subject to the limitations of the Indiana General Business Corporation Law, which prohibit the Company from paying dividends if the Company is, or by payment of the dividend would become, insolvent, or if the payment of dividends would render the Company unable to pay its debts as they become due in the usual course of business. Additionally, policies of the Federal Reserve caution that a bank holding company should not pay cash dividends that exceed its net income or that can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

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

The Bank

General. The Bank is an Indiana-chartered bank, the deposit accounts of which are insured by the FDIC's Bank Insurance Fund ("BIF"). As an Indiana-chartered bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the DFI, the chartering authority for Indiana banks, and the FDIC, designated by federal law as the primary federal regulator of state-chartered, FDIC-insured banks that, like the Bank, are not members of the Federal Reserve System ("non-member banks").

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

During the year ended December 31, 2003, BIF assessments ranged from 0% of deposits to 0.27% of deposits. For the semi-annual assessment period beginning January 1, 2004, BIF assessment rates will continue to range from 0% of deposits to 0.27% of deposits.

FICO Assessments. Since 1987, a portion of the deposit insurance assessments paid by members of the FDIC's Savings Association Insurance Fund ("SAIF") has been used to cover interest payments due on the outstanding obligations of the Financing Corporation ("FICO"). FICO was created in 1987 to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the SAIF's predecessor insurance fund. As a result of federal legislation enacted in 1996, beginning as of January 1, 1997, both SAIF members and BIF members became subject to assessments to cover the interest payments on outstanding FICO obligations until the final maturity of such obligations in 2019. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. During the year ended December 31, 2003, the FICO assessment rate for BIF and SAIF members was approximately 0.02% of deposits.

Supervisory Assessments. All Indiana banks are required to pay supervisory assessments to the DFI to fund the operations of the DFI. The amount of the assessment is calculated on the basis of the bank's total assets. During the year ended December 31, 2003, the Bank paid supervisory assessments to the DFI totaling \$84,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. The FDIC has established the following minimum capital standards for state-chartered FDIC-insured non-member banks, such as the Bank: (i) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others; and (ii) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. For purposes of these capital standards, the components of Tier 1 capital and total capital are the same as those for bank holding companies discussed above.

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

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

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

As of December 31, 2003: (i) the Bank was not subject to a directive from the FDIC to increase its capital to an amount in excess of the minimum

regulatory capital requirements; (ii) the Bank exceeded its minimum regulatory capital requirements under FDIC capital adequacy guidelines; and (iii) the Bank was "well-capitalized," as defined by FDIC regulations.

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

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2003. As of December 31, 2003, approximately \$19.8 million was available to be paid as dividends by the Bank. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by the Bank if the FDIC determines such payment would constitute an unsafe or unsound practice.

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

Safety and Soundness Standards. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

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

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

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

branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is permitted only in those few states that authorize such expansion.

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

Federal Reserve System. Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts), as follows: for transaction accounts aggregating \$45.4 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of \$45.4 million, the reserve requirement is \$1.164 million plus 10% of the aggregate amount of total transaction accounts in excess of \$45.4 million. The first \$6.6 million of otherwise reservable balances are exempted from the reserve requirements. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Bank is in compliance with the foregoing requirements.

INDUSTRY SEGMENTS

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

GUIDE 3 INFORMATION

On the pages that follow are tables that set forth selected statistical information relative to the business of the Company. This data should be read in conjunction with the consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set forth in Items 7&8, below, herein incorporated by reference.

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

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

- (1) Tax exempt income was converted to a fully taxable equivalent basis at a 35 percent tax rate for 2003 and 2002. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the TEFRA adjustment applicable to nondeductible interest expenses.
- (2) Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 2003 and 2002, are included as taxable loan interest income.
- (3) Nonaccrual loans are included in the average balance of taxable loans.

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

| | 2002 | | | 2001 | | |
|--------------------------------|--------------------|--------------------|-----------|--------------------|--------------------|-----------|
| | Average Balance | Interest Income | Yield (1) | Average Balance | Interest Income | Yield (1) |
| ASSETS | | | | | | |
| Earning assets: | | | | | | |
| Loans: | | | | | | |
| Taxable (2)(3) | \$ 766,962 | \$ 49,083 | 6.40% | \$ 727,330 | \$ 58,348 | 8.02% |
| Tax exempt (1) | 3,935 | 279 | 7.09 | 2,420 | 209 | 8.64 |
| Investments: (1) | | | | | | |
| Available for sale | 274,155 | 15,677 | 5.72 | 291,901 | 18,556 | 6.36 |
| Short-term investments | 12,672 | 191 | 1.51 | 9,778 | 405 | 4.14 |
| Interest bearing deposits | 4,283 | 70 | 1.61 | 2,437 | 80 | 3.24 |
| Total earning assets | 1,062,007 | 65,300 | 6.15% | 1,033,866 | 77,598 | 7.51% |
| Nonearning assets: | | | | | | |
| Cash and due from banks | 42,904 | 0 | | 41,148 | 0 | |
| Premises and equipment | 24,469 | 0 | | 26,423 | 0 | |
| Other nonearning assets | 28,032 | 0 | | 28,743 | 0 | |
| Less allowance for loan losses | (8,662) | 0 | | (7,364) | 0 | |
| Total assets | \$ 1,148,750 | \$ 65,300 | | \$ 1,122,816 | \$ 77,598 | |

- (1) Tax exempt income was converted to a fully taxable equivalent basis at a 35 and 34 percent tax rate for 2002 and 2001. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the TEFRA adjustment applicable to nondeductible interest expenses.
- (2) Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 2002 and 2001, are included as taxable loan interest income.
- (3) Nonaccrual loans are included in the average balance of taxable loans.

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

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

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

| | 2002 | | | 2001 | | |
|--|---------------------|---------------------|--------------|---------------------|---------------------|--------------|
| | Average Balance | Interest Expense | Yield | Average Balance | Interest Expense | Yield |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Interest bearing liabilities: | | | | | | |
| Savings deposits | \$ 53,792 | \$ 404 | 0.75% | \$ 50,513 | \$ 613 | 1.21% |
| Interest bearing checking accounts | 231,712 | 3,592 | 1.55 | 230,144 | 7,447 | 3.24 |
| Time deposits: | | | | | | |
| In denominations under \$100,000 | 203,531 | 7,491 | 3.68 | 211,728 | 11,151 | 5.27 |
| In denominations over \$100,000 | 224,437 | 5,604 | 2.50 | 203,067 | 10,639 | 5.24 |
| Miscellaneous short-term borrowings | 146,619 | 2,552 | 1.74 | 178,197 | 6,904 | 3.87 |
| Long-term borrowings and subordinated debentures | 46,287 | 2,915 | 6.30 | 32,030 | 2,476 | 7.73 |
| Total interest bearing liabilities | 906,378 | 22,558 | 2.49% | 905,679 | 39,230 | 4.33% |
| Noninterest bearing liabilities and stockholders' equity: | | | | | | |
| Demand deposits | 150,226 | 0 | | 137,011 | 0 | |
| Other liabilities | 13,093 | 0 | | 10,135 | 0 | |
| Stockholders' equity | 79,053 | 0 | | 69,991 | 0 | |
| Total liabilities and stockholders' equity | \$ 1,148,750 | \$ 22,558 | | \$ 1,122,816 | \$ 39,230 | |
| Net interest differential - yield on average daily earning assets | | \$ 42,742 | 4.02% | | \$ 38,368 | 3.71% |

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

YEAR ENDED DECEMBER 31,

| | 2003 Over (Under) 2002 (1) | | | 2002 Over (Under) 2001 (1) | | |
|--|----------------------------|------------|------------|----------------------------|-------------|------------|
| | Volume | Rate | Total | Volume | Rate | Total |
| INTEREST AND LOAN FEE INCOME (2) | | | | | | |
| Loans: | | | | | | |
| Taxable | \$ 4,407 | \$ (6,629) | \$ (2,222) | \$ 3,043 | \$ (12,308) | \$ (9,265) |
| Tax exempt | 223 | (72) | 151 | 113 | (43) | 70 |
| Investments: | | | | | | |
| Available for sale | (170) | (1,389) | (1,559) | (1,085) | (1,794) | (2,879) |
| Short-term investments | (11) | (60) | (71) | 96 | (310) | (214) |
| Interest bearing deposits | 25 | (27) | (2) | 42 | (52) | (10) |
| Total interest income | 4,474 | (8,177) | (3,703) | 2,209 | (14,507) | (12,298) |
| INTEREST EXPENSE | | | | | | |
| Savings deposits | 49 | (221) | (172) | 38 | (247) | (209) |
| Interest bearing checking accounts | 914 | (1,292) | (378) | 50 | (3,905) | (3,855) |
| Time deposits: | | | | | | |
| In denominations under \$100,000 | (12) | (1,326) | (1,338) | (417) | (3,243) | (3,660) |
| In denominations over \$100,000 | 146 | (1,270) | (1,124) | 1,022 | (6,057) | (5,035) |
| Miscellaneous short-term borrowings | (428) | (1,014) | (1,442) | (1,059) | (3,293) | (4,352) |
| Long-term borrowings and subordinated debentures | 444 | (411) | 33 | 958 | (519) | 439 |
| Total interest expense | 1,113 | (5,534) | (4,421) | 592 | (17,264) | (16,672) |
| INCREASE (DECREASE) IN INTEREST DIFFERENTIALS | \$ 3,361 | \$ (2,643) | \$ 718 | \$ 1,617 | \$ 2,757 | \$ 4,374 |

- (1) The earning assets and interest bearing liabilities used to calculate interest differentials are based on average daily balances for 2003, 2002 and 2001. The changes in volume represent "changes in volume times the old rate". The changes in rate represent "changes in rate times old volume". The changes in rate/volume were also calculated by "change in rate times change in volume" and allocated consistently based upon the relative absolute values of the changes in volume and changes in rate.
- (2) Tax exempt income was converted to a fully taxable equivalent basis at a 35, 35 and 34 percent tax rate for 2003, 2002 and 2001. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the TEFRA adjustment applicable to nondeductible interest expense.

ANALYSIS OF SECURITIES
(in thousands of dollars)

The amortized cost and the fair value of securities as of December 31, 2003, 2002 and 2001 were as follows:

| | 2003 | | 2002 | | 2001 | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Securities available for sale: | | | | | | |
| U.S. Treasury securities | \$ 0 | \$ 0 | \$ 5,143 | \$ 5,338 | \$ 7,630 | \$ 7,866 |
| U.S. Government agencies and corporations | 17,234 | 17,280 | 11,371 | 11,946 | 11,528 | 11,574 |
| Mortgage-backed securities | 213,071 | 211,142 | 216,619 | 222,036 | 213,054 | 216,654 |
| State and municipal securities | 51,138 | 52,945 | 33,534 | 34,785 | 30,085 | 29,663 |
| Other debt securities | 0 | 0 | 0 | 0 | 5,791 | 5,882 |
| Total debt securities available for sale | <u>\$ 281,443</u> | <u>\$ 281,367</u> | <u>\$ 266,667</u> | <u>\$ 274,105</u> | <u>\$ 268,088</u> | <u>\$ 271,639</u> |

ANALYSIS OF SECURITIES (cont.)
(fully tax equivalent basis)
(in thousands of dollars)

The weighted average yields (1) and maturity distribution (2) for debt securities portfolio at December 31, 2003, were as follows:

| | Within One Year | After One Year Within Five Years | After five Years Within Ten Years | Over Ten Years |
|---|-----------------------|---|--|----------------------|
| | ----- | ----- | ----- | ----- |
| Securities available for sale: | | | | |
| Government agencies and corporations | | | | |
| Book value | \$ 0 | \$ 11,799 | \$ 5,481 | \$ 0 |
| Yield | 0.00% | 3.36% | 5.25% | 0.00% |
| Mortgage-backed securities | | | | |
| Book value | 0 | 16,229 | 64,112 | 130,801 |
| Yield | 0.00% | 5.74% | 5.35% | 5.45% |
| State and municipal securities | | | | |
| Book value | 100 | 865 | 3,922 | 48,058 |
| Yield | 6.85% | 3.34% | 4.24% | 4.63% |
| ----- | | | | |
| Total debt securities available for sale: | | | | |
| Book value | \$ 100 | \$ 28,893 | \$ 73,515 | \$ 178,859 |
| Yield | 6.85% | 4.69% | 5.05% | 5.23% |
| | ===== | ===== | ===== | ===== |

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 35% rate.

(2) The maturity distribution of mortgage-backed securities was based upon anticipated payments as computed by using the historic average payment speed from date of issue.

There were no investments in securities of any one issuer, other than the U.S. Government and its agencies that exceeded 10% of stockholders' equity at December 31, 2003.

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

The Company segregates its loan portfolio into four basic segments: commercial (including agri-business and agricultural loans), real estate mortgages, installment and personal line of credit loans (including credit card loans). The loan portfolio as of December 31, 2003, 2002, 2001, 2000 and 1999 was as follows:

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|--------------------------------------|------------|------------|------------|------------|------------|
| | ----- | ----- | ----- | ----- | ----- |
| Commercial loans: | | | | | |
| Taxable | \$ 667,672 | \$ 619,963 | \$ 534,645 | \$ 487,125 | \$ 419,034 |
| Tax exempt | 7,785 | 4,974 | 2,544 | 2,374 | 3,048 |
| | ----- | ----- | ----- | ----- | ----- |
| Total commercial loans | 675,457 | 624,937 | 537,189 | 489,499 | 422,082 |
| Real estate mortgage loans | 44,050 | 47,184 | 47,252 | 52,731 | 46,872 |
| Installment loans | 58,567 | 75,692 | 95,592 | 129,729 | 146,711 |
| Line of credit and credit card loans | 92,808 | 74,863 | 58,190 | 46,917 | 38,233 |
| | ----- | ----- | ----- | ----- | ----- |
| Total loans | 870,882 | 822,676 | 738,223 | 718,876 | 653,898 |
| Less allowance for loan losses | 10,234 | 9,533 | 7,946 | 7,124 | 6,522 |
| | ----- | ----- | ----- | ----- | ----- |
| Net loans | \$ 860,648 | \$ 813,143 | \$ 730,277 | \$ 711,752 | \$ 647,376 |
| | ===== | ===== | ===== | ===== | ===== |

The real estate mortgage loan portfolio included construction loans totaling \$3,932, \$2,540, \$2,354, \$3,626 and \$4,488 as of December 31, 2003, 2002, 2001, 2000 and 1999. The loan classifications are based on the nature of the loans as of the loan origination date. There were no foreign loans included in the loan portfolio for the periods presented.

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

Repricing opportunities of the loan portfolio occur either according to predetermined adjustable rate schedules included in the related loan agreements or upon maturity of each principal payment. The following table indicates the scheduled maturities of the loan portfolio as of December 31, 2003.

| | Commercial | Real Estate | Installment | Line of Credit and Credit Card | Total | Percent |
|-----------------------------------|------------|----------------|-------------|--------------------------------------|------------|---------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Original maturity of one day | \$ 410,909 | \$ 0 | \$ 419 | \$ 90,006 | \$ 501,334 | 57.6% |
| Other within one year | 94,472 | 6,256 | 23,420 | 0 | 124,148 | 14.2 |
| After one year, within five years | 158,334 | 5,632 | 32,671 | 0 | 196,637 | 22.6 |
| Over five years | 11,290 | 32,061 | 2,057 | 2,802 | 48,210 | 5.5 |
| Nonaccrual loans | 452 | 101 | 0 | 0 | 553 | 0.1 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total loans | \$ 675,457 | \$ 44,050 | \$ 58,567 | \$ 92,808 | \$ 870,882 | 100.0% |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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

Loans due after one year which have a predetermined interest rate and loans due after one year which have floating or adjustable interest rates as of December 31, 2003 amounted to \$207,387 and \$37,460.

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, 2003, 2002, 2001, 2000 and 1999.

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|--|----------|----------|----------|----------|----------|
| PART A - PAST DUE ACCRUING LOANS (90 DAYS OR MORE) | | | | | |
| Real estate mortgage loans | \$ 160 | \$ 0 | \$ 170 | \$ 398 | \$ 0 |
| Commercial and industrial loans | 2,912 | 3,245 | 0 | 7,635 | 20 |
| Loans to individuals for household, family and other personal expenditures | 119 | 142 | 94 | 171 | 151 |
| Loans to finance agriculture production and other loans to farmers | 0 | 0 | 0 | 0 | 0 |
| | ----- | ----- | ----- | ----- | ----- |
| Total past due loans | 3,191 | 3,387 | 264 | 8,204 | 171 |
| | ----- | ----- | ----- | ----- | ----- |
| PART B - NONACCRUAL LOANS | | | | | |
| Real estate mortgage loans | 101 | 106 | 59 | 37 | 0 |
| Commercial and industrial loans | 452 | 4,110 | 2,175 | 169 | 329 |
| Loans to individuals for household, family and other personal expenditures | 0 | 0 | 0 | 0 | 0 |
| Loans to finance agriculture production and other loans to farmers | 0 | 0 | 0 | 0 | 0 |
| | ----- | ----- | ----- | ----- | ----- |
| Total past due loans | 553 | 4,216 | 2,234 | 206 | 329 |
| | ----- | ----- | ----- | ----- | ----- |
| PART C - TROUBLED DEBT RESTRUCTURED LOANS | | | | | |
| | 0 | 0 | 0 | 1,127 | 1,179 |
| | ----- | ----- | ----- | ----- | ----- |
| Total nonperforming loans | \$ 3,744 | \$ 7,603 | \$ 2,498 | \$ 9,537 | \$ 1,679 |
| | ===== | ===== | ===== | ===== | ===== |

Nonearning assets of the Company include nonperforming loans (as indicated above), nonaccrual investments, other real estate and repossessions, which amounted to \$4,328 at December 31, 2003.

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

PART A - CONSUMER LOANS

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

PART B - NONPERFORMING LOANS

When a loan is classified as a nonaccrual loan, interest on the loan is no longer accrued and all accrued interest receivable is charged off. It is the policy of the Bank that all loans for which the collateral is insufficient to cover all principal and accrued interest will be reclassified as nonperforming loans to the extent they are unsecured, on or before the date when the loan becomes 90 days delinquent. Thereafter, interest is recognized and included in income only when received. Interest not recorded on nonaccrual loans is referenced in Footnote 4 in Item 8 below.

As of December 31, 2003, there were \$553,000 of loans on nonaccrual status, some of which were also on impaired status. There were \$3.0 million of loans classified as impaired.

PART C - TROUBLED DEBT RESTRUCTURED LOANS

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

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

PART D - OTHER NONPERFORMING ASSETS

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

PART E - LOAN CONCENTRATIONS

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

Basis For Determining Allowance For Loan Losses:

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

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

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

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

Based upon these policies and objectives, \$2.3 million, \$3.1 million and \$2.2 million were charged to the provision for loan losses and added to the allowance for loan losses in 2003, 2002 and 2001.

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

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

The following is a summary of the loan loss experience for the years ended December 31, 2003, 2002, 2001, 2000 and 1999.

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|------------|------------|------------|------------|------------|
| Amount of loans outstanding, December 31, | \$ 870,882 | \$ 822,676 | \$ 738,223 | \$ 718,876 | \$ 653,898 |
| Average daily loans outstanding during the year ended December 31, | \$ 847,555 | \$ 770,897 | \$ 729,750 | \$ 679,198 | \$ 605,170 |
| Allowance for loan losses, January 1, | \$ 9,533 | \$ 7,946 | \$ 7,124 | \$ 6,522 | \$ 5,510 |
| Loans charged-off | | | | | |
| Commercial | 1,261 | 1,268 | 569 | 200 | 147 |
| Real estate | 47 | 0 | 0 | 30 | 6 |
| Installment | 353 | 509 | 868 | 483 | 252 |
| Credit cards and personal credit lines | 113 | 98 | 103 | 35 | 30 |
| Total loans charged-off | 1,774 | 1,875 | 1,540 | 748 | 435 |
| Recoveries of loans previously charged-off | | | | | |
| Commercial | 21 | 270 | 3 | 45 | 10 |
| Real estate | 0 | 0 | 16 | 0 | 0 |
| Installment | 188 | 128 | 113 | 93 | 114 |
| Credit cards and personal credit lines | 12 | 8 | 5 | 6 | 13 |
| Total recoveries | 221 | 406 | 137 | 144 | 137 |
| Net loans charged-off | 1,553 | 1,469 | 1,403 | 604 | 298 |
| Provision for loan loss charged to expense | 2,254 | 3,056 | 2,225 | 1,206 | 1,310 |
| Balance, December 31, | \$ 10,234 | \$ 9,533 | \$ 7,946 | \$ 7,124 | \$ 6,522 |
| Ratio of net charge-offs during the period to average daily loans outstanding | | | | | |
| Commercial | 0.15% | 0.13% | 0.08% | 0.02% | 0.02% |
| Real estate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Installment | 0.02 | 0.05 | 0.10 | 0.06 | 0.02 |
| Credit cards and personal credit lines | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Total | 0.18% | 0.19% | 0.19% | 0.09% | 0.05% |
| Ratio of allowance for loan losses to nonperforming assets | 236.46% | 123.15% | 192.58% | 73.83% | 368.06% |

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, 2003, 2002, 2001, 2000 and 1999.

| | 2003 | | 2002 | | 2001 | |
|---|------------------------------------|---|------------------------------------|---|------------------------------------|---|
| | Allowance For Loan Losses | Loans as Percentage of Gross Loans | Allowance For Loan Losses | Loans as Percentage of Gross Loans | Allowance For Loan Losses | Loans as Percentage of Gross Loans |
| Allocated allowance for loan losses | | | | | | |
| Commercial | \$ 8,634 | 77.56% | \$ 7,824 | 75.96% | \$ 6,412 | 72.77% |
| Real estate | 110 | 5.06 | 123 | 5.74 | 127 | 6.40 |
| Installment | 440 | 6.72 | 573 | 9.20 | 728 | 12.95 |
| Credit cards and personal credit lines | 696 | 10.66 | 563 | 9.10 | 431 | 7.88 |
| | | | | | | |
| Total allocated allowance for loan losses | 9,880 | 100.00% | 9,083 | 100.00% | 7,698 | 100.00% |
| | | ===== | | ===== | | ===== |
| Unallocated allowance for loan losses | 354 | | 450 | | 248 | |
| | | | | | | |
| Total allowance for loan losses | \$ 10,234 | | \$ 9,533 | | \$ 7,946 | |
| | | | | | | |
| | | | | | | |
| | | 2000 | | | 1999 | |
| | | | | | | |
| Allocated allowance for loan losses | | | | | | |
| Commercial | \$ 5,205 | 68.09% | \$ 4,750 | 64.55% | | |
| Real estate | 132 | 7.34 | 120 | 7.17 | | |
| Installment | 974 | 18.04 | 1,202 | 22.43 | | |
| Credit cards and personal credit lines | 352 | 6.53 | 185 | 5.85 | | |
| | | | | | | |
| Total allocated allowance for loan losses | 6,663 | 100.00% | 6,257 | 100.00% | | |
| | | ===== | | ===== | | |
| Unallocated allowance for loan losses | 461 | | 265 | | | |
| | | | | | | |
| Total allowance for loan losses | \$ 7,124 | | \$ 6,522 | | | |
| | | | | | | |
| | | | | | | |

In 2001 and 1999, the Company reviewed and revised the allocation process for the Allowance for Loan Losses. These changes primarily affected the allocations as they pertain to the commercial loans classified in the Company's internal watch list. These changes also brought the Company's methodology into closer conformity with regulatory guidance. The Company continues to review the allocation process and the documentation for the Allowance for Loan Losses, therefore future changes may occur.

ANALYSIS OF DEPOSITS
(in thousands of dollars)

The average daily deposits for the years ended December 31, 2003, 2002 and 2001, and the average rates paid on those deposits are summarized in the following table:

| | 2003 | | 2002 | | 2001 | |
|-----------------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
| | Average Daily Balance | Average Rate Paid | Average Daily Balance | Average Rate Paid | Average Daily Balance | Average Rate Paid |
| Demand deposits | \$ 173,716 | 0.00% | \$ 150,226 | 0.00% | \$ 137,011 | 0.00% |
| Savings and transaction accounts: | | | | | | |
| Regular savings | 61,053 | 0.38 | 53,792 | 0.75 | 50,513 | 1.21 |
| Interest bearing checking | 301,328 | 1.07 | 231,712 | 1.55 | 230,144 | 3.24 |
| Time deposits: | | | | | | |
| Deposits of \$100,000 or more | 230,417 | 1.94 | 224,437 | 2.50 | 203,067 | 5.24 |
| Other time deposits | 203,196 | 3.03 | 203,531 | 3.68 | 211,728 | 5.27 |
| | | | | | | |
| Total deposits | \$ 969,710 ===== | 1.45% | \$ 863,698 ===== | 1.98% | \$ 832,463 ===== | 3.59% |

As of December 31, 2003, time certificates of deposit in denominations of \$100,000 or more will mature as follows:

| | |
|--|---------------------|
| Within three months | \$ 45,842 |
| Over three months, within six months | 17,847 |
| Over six months, within twelve months | 10,208 |
| Over twelve months | 32,471 |
| | |
| Total time certificates of deposit in denominations of \$100,000 or more | \$ 106,368 ===== |

QUALITATIVE MARKET RISK DISCLOSURE

Management's market risk disclosure appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, below, and is incorporated herein by reference in response to this item. The Company's primary market risk exposure is interest rate risk. The Company does not have a material exposure to foreign currency exchange rate risk, does not own any material derivative financial instruments and does not maintain a trading portfolio.

RETURN ON EQUITY AND OTHER RATIOS

The rates of return on average daily assets and stockholders' equity, the dividend payout ratio, and the average daily stockholders' equity to average daily assets for the years ended December 31, 2003, 2002 and 2001 were as follows:

| | 2003 | 2002 | 2001 |
|---|--------|--------|--------|
| | ----- | ----- | ----- |
| Percent of net income to: | | | |
| Average daily total assets | 1.12% | 1.08% | 0.90% |
| Average daily stockholders' equity | 15.88% | 15.64% | 14.45% |
| Percentage of dividends declared per common share to basic earnings per weighted average number of common shares outstanding (5,819,916 shares in 2003 and 5,813,984 shares in 2002 and 2001) | 31.93% | 31.92% | 34.48% |
| Percentage of average daily stockholders' equity to average daily total assets | 7.05% | 6.88% | 6.23% |

SHORT-TERM BORROWINGS
(in thousands of dollars)

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

| | 2003 | 2002 | 2001 |
|--|------------|------------|------------|
| | ----- | ----- | ----- |
| Outstanding at year end | \$ 102,601 | \$ 124,969 | \$ 149,117 |
| Approximate average interest rate at year end | 0.79% | 1.03% | 1.91% |
| Highest amount outstanding as of any month end during the year | \$ 108,270 | \$ 139,857 | \$ 160,628 |
| Approximate average outstanding during the year | \$ 97,808 | \$ 116,214 | \$ 140,277 |
| Approximate average interest rate during the year | 0.83% | 1.49% | 3.72% |

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

ITEM 2. PROPERTIES

The Company conducts its operations from the following locations:

| Branches/Headquarters | | | |
|-----------------------|------------------------------|---------------|----|
| Main/Headquarters | 202 East Center St. | Warsaw | IN |
| Warsaw Drive-up | East Center St. | Warsaw | IN |
| Akron | 102 East Rochester | Akron | IN |
| Argos | 100 North Michigan | Argos | IN |
| Auburn | 1220 East 7th St. | Auburn | IN |
| Bremen | 1600 Indiana State Road 331 | Bremen | IN |
| Columbia City | 601 Countryside Dr. | Columbia City | IN |
| Concord | 4202 Elkhart Rd. | Goshen | IN |
| Cromwell | 111 North Jefferson St. | Cromwell | IN |
| Elkhart Beardsley | 864 East Beardsley St. | Elkhart | IN |
| Elkhart East | 22050 State Road 120 | Elkhart | IN |
| Elkhart Hubbard Hill | 58404 State Road 19 | Elkhart | IN |
| Elkhart Northwest | 1208 North Nappanee St. | Elkhart | IN |
| Fort Wayne North | 302 East DuPont Rd. | Fort Wayne | IN |
| Fort Wayne Northeast | 10411 Maysville Rd. | Fort Wayne | IN |
| Fort Wayne Southwest | 10429 Illinois Rd. | Fort Wayne | IN |
| Fort Wayne Downtown | 200 East Main St., Suite 600 | Fort Wayne | IN |
| Goshen Downtown | 102 North Main St. | Goshen | IN |
| Goshen South | 2513 South Main St. | Goshen | IN |
| Granger | 12830 State Road 23 | Granger | IN |
| Huntington | 1501 North Jefferson St. | Huntington | IN |
| Kendallville East | 631 Professional Way | Kendallville | IN |
| LaGrange | 901 South Detroit | LaGrange | IN |
| Ligonier Downtown | 222 South Cavin St. | Ligonier | IN |
| Ligonier South | 1470 U.S. Highway 33 South | Ligonier | IN |
| Medaryville | Main St. | Medaryville | IN |
| Mentone | 202 East Main St. | Mentone | IN |
| Middlebury | 712 Wayne Ave. | Middlebury | IN |
| Milford | Indiana State Road 15 North | Milford | IN |
| Mishawaka | 5015 North Main St. | Mishawaka | IN |
| Nappanee | 202 West Market St. | Nappanee | IN |
| North Webster | 644 North Main St. | North Webster | IN |
| Pierceton | 202 South First St. | Pierceton | IN |
| Plymouth | 862 East Jefferson St. | Plymouth | IN |
| Rochester | 507 East 9th St. | Rochester | IN |
| Shipshewana | 895 North Van Buren St. | Shipshewana | IN |
| Silver Lake | 102 Main St. | Silver Lake | IN |
| South Bend Northwest | 21113 Cleveland Rd. | South Bend | IN |
| Syracuse | 502 South Huntington | Syracuse | IN |
| Warsaw East | 3601 Commerce Dr. | Warsaw | IN |
| Warsaw North | 420 Chevy Way | Warsaw | IN |
| Warsaw West | 1221 West Lake St. | Warsaw | IN |
| Winona Lake | 99 Chestnut St. | Winona Lake | IN |
| Winona Lake East | 1324 Wooster Rd. | Winona Lake | IN |

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

In addition, the Company owns buildings at 110 South High St., Warsaw, Indiana, and 114-118 East Market St., Warsaw, Indiana, which it uses for various offices, a building at 113 East Market St., Warsaw, Indiana, which it uses for office and computer facilities, and a building at 109 South Buffalo St., Warsaw, Indiana, which it uses for training and development. The Company also leases from third parties facilities in Warsaw, Indiana, for the storage of supplies and in Elkhart, Indiana, for computer facilities.

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

ITEM 3. LEGAL PROCEEDINGS

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

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

No matter was submitted to a vote of security holders during the fourth quarter of 2003.

PART II

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

| | 4th Quarter ----- | 3rd Quarter ----- | 2nd Quarter ----- | 1st Quarter ----- |
|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 2003 | | | | |
| Trading range (per share)* | | | | |
| Low | \$33.510 | \$29.510 | \$24.400 | \$23.000 |
| High | \$37.469 | \$34.400 | \$31.220 | \$25.750 |
| Dividends declared (per share) | \$ 0.19 | \$ 0.19 | \$ 0.19 | \$ 0.19 |
| 2002 | | | | |
| Trading range (per share)* | | | | |
| Low | \$22.220 | \$23.570 | \$20.100 | \$17.410 |
| High | \$24.995 | \$29.760 | \$28.840 | \$20.450 |
| Dividends declared (per share) | \$ 0.17 | \$ 0.17 | \$ 0.17 | \$ 0.17 |

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

The common stock of the Company began being quoted on The Nasdaq Stock Market under the symbol LKFN in August, 1997. On December 31, 2003, the Company had approximately 513 shareholders of record and estimates that it has approximately 2,000 shareholders in total.

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

ITEM 6. SELECTED FINANCIAL DATA

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|--|-----------|-----------|-----------|-----------|
| | (in thousands except share and per share data) | | | | |
| Interest income | \$ 60,336 | \$ 64,335 | \$ 76,615 | \$ 80,050 | \$ 69,395 |
| Interest expense | 18,137 | 22,558 | 39,230 | 45,030 | 37,122 |
| Net interest income | 42,199 | 41,777 | 37,385 | 35,020 | 32,273 |
| Provision for loan losses | 2,254 | 3,056 | 2,225 | 1,206 | 1,310 |
| Net interest income after provision for loan losses | 39,945 | 38,721 | 35,160 | 33,814 | 30,963 |
| Other noninterest income | 14,909 | 12,894 | 11,449 | 10,469 | 9,841 |
| Net gain on sale of branches | 0 | 0 | 753 | 0 | 0 |
| Net gains on sale of real estate mortgages held for sale | 3,018 | 1,914 | 1,232 | 504 | 1,302 |
| Net securities gains (losses) | 500 | 55 | 120 | 0 | 1,340 |
| Noninterest expense | (37,679) | (34,698) | (33,857) | (31,349) | (31,042) |
| Income before income tax expense | 20,693 | 18,886 | 14,857 | 13,438 | 12,404 |
| Income tax expense | 6,828 | 6,520 | 4,744 | 4,116 | 4,085 |
| Net income | \$ 13,865 | \$ 12,366 | \$ 10,113 | \$ 9,322 | \$ 8,319 |
| Basic weighted average common shares outstanding | 5,819,916 | 5,813,984 | 5,813,984 | 5,813,984 | 5,813,984 |
| Basic earnings per common share | \$ 2.38 | \$ 2.13 | \$ 1.74 | \$ 1.60 | \$ 1.43 |
| Diluted weighted average common shares outstanding | 6,001,449 | 5,958,386 | 5,841,196 | 5,813,999 | 5,813,992 |
| Diluted earnings per common share | \$ 2.31 | \$ 2.08 | \$ 1.73 | \$ 1.60 | \$ 1.43 |
| Cash dividends declared | \$ 0.76 | \$ 0.68 | \$ 0.60 | \$ 0.52 | \$ 0.44 |

ITEM 6. SELECTED FINANCIAL DATA (continued)

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|-----------------------------|----------------|--------------|--------------|--------------|--------------|
| | (in thousands) | | | | |
| Balances at December 31: | | | | | |
| ----- | | | | | |
| Total assets | \$ 1,271,414 | \$ 1,249,060 | \$ 1,139,013 | \$ 1,150,485 | \$ 1,041,198 |
| Total loans | \$ 870,882 | \$ 822,676 | \$ 738,223 | \$ 718,876 | \$ 653,898 |
| Total deposits | \$ 926,391 | \$ 913,325 | \$ 793,380 | \$ 845,329 | \$ 748,243 |
| Total short-term borrowings | \$ 184,761 | \$ 184,968 | \$ 232,117 | \$ 200,078 | \$ 195,374 |
| Long-term borrowings | \$ 30,047 | \$ 31,348 | \$ 11,389 | \$ 11,433 | \$ 16,473 |
| Subordinated debentures | \$ 30,928 | \$ 20,619 | \$ 20,619 | \$ 20,619 | \$ 20,619 |
| Total stockholders' equity | \$ 90,022 | \$ 83,880 | \$ 73,534 | \$ 64,973 | \$ 54,194 |

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

OVERVIEW

Lakeland Financial Corporation is the holding company for Lake City Bank. The Company is headquartered in Warsaw, Indiana and operates 43 offices in twelve counties in northern Indiana. The Company earned \$13.9 million for the year ended 2003 versus \$12.4 million for the year ended 2002, an increase of 12.1%. The increase was driven by a \$3.6 million increase in non-interest income, an \$802,000 decrease in the provision for loan losses and a \$422,000 increase in net interest income. Offsetting these positive impacts was a \$3.0 million increase in non-interest expense, driven by \$804,000 expense related to debt extinguishment costs and an other real estate owned impairment of \$300,000. The Company earned \$12.4 million for the year ended 2002 versus \$10.1 million for the year ended 2001, an increase of 22.3%. The increase was driven by a \$4.4 million increase in net interest income and a \$1.3 million increase in non-interest income. Offsetting these positive impacts were increases of \$831,000 in the provision for loan losses and \$841,000 in non-interest expense.

Basic earnings per share for the year ended 2003 was \$2.38 per share versus \$2.13 per share for the year ended 2002 and \$1.74 for the year ended 2001. Diluted earnings per share reflect the potential dilutive impact of stock options granted under an employee stock option plan. Diluted earnings per share for the year ended 2003 was \$2.31 per share versus \$2.08 per share for the year ended 2002 and \$1.73 for the year ended 2001.

RESULTS OF OPERATIONS

2003 versus 2002

The Company reported record net income of \$13.9 million in 2003, an increase of \$1.5 million, or 12.1%, versus net income of \$12.4 million in 2002. Net interest income increased \$422,000, or 1.0%, to \$42.2 million versus \$41.8 million in 2002. Net interest income increased due to a decrease in interest expense on time deposits and short-term borrowings, as well as growth in commercial loans, which offset some of the effect of the declining interest rates during the year. Despite growth in earning assets, interest income decreased \$4.0 million, or 6.2%, from \$64.3 million in 2002 to \$60.3 million in 2003. The decrease was driven primarily by a 73 basis point reduction in the tax equivalent yield on average earning assets over the year. Interest expense decreased \$4.4 million, or 19.6%, from \$22.6 million in 2002 to \$18.1 million in 2003. The decrease was primarily the result of a 55 basis point decrease in the Company's daily cost of funds over the year. The Company had a net interest margin of 3.82% in 2003 versus 4.02% in 2002. Average earning

assets increased by \$74.7 million and totaled \$1.1 billion in 2003 and 2002. The primary driver was a \$76.7 million increase in the average daily loan balance. Deposits increased to fund the loan growth during 2003, driven primarily by increases of \$69.6 million in the average daily interest bearing checking account balances and increases of \$23.5 million in the average daily demand deposit balances. The Company believes that the growth in the loan portfolio will continue in conjunction with the strategic focus on commercial lending and the general expansion and penetration of the geographical markets the Company serves. During the fourth quarter of 2003, the Company completed the issuance of floating rate trust preferred securities and the redemption of its existing fixed rate trust preferred securities. The interest rate on subordinated debentures, which are tied to the trust preferred securities, changed from a 9% fixed rate to a variable rate of 305 basis points over the 3 month LIBOR rate in the fourth quarter of 2003. Interest expense on subordinated debentures is expected to decrease in 2004 compared to 2003 given the low interest rate environment and that the Company paid a higher fixed rate for a portion of 2003.

Nonaccrual loans were \$553,000, or 0.06% of total loans, at year end versus \$4.2 million, or 0.51% of total loans, at the end of 2002. There were two relationships totaling \$3.0 million classified as impaired as of December 31, 2003 versus nine relationships totaling \$7.3 million at the end of 2002. One commercial credit represented \$2.9 million and \$3.2 million of this amount in 2003 and 2002. The renewal of this loan has been complicated as more than one bank is involved, and it remains past maturity. The loan first became delinquent in 2002 and the maturity has not been extended. While this loan is current as to principal and interest, there can be no assurance that it will remain current given the circumstances involved. The decrease was the result of payments on six commercial loans, including one loan of \$1.7 million. Net charge-offs were \$1.6 million in 2003 versus \$1.5 million in 2002, representing 0.18% and 0.19% of average daily loans in 2003 and 2002. Total nonperforming loans were \$3.7 million, or 0.43% of total loans, at year end 2003 versus \$7.6 million, or 0.92% of total loans, at the end of 2002. The provision for loan loss expense was \$2.3 million in 2003, resulting in an allowance for loan losses at December 31, 2003 of \$10.2 million, which represented 1.18% of the loan portfolio, versus a provision for loan loss expense of \$3.1 million in 2002 and an allowance for loan losses of \$9.5 million in 2002, or 1.16% of the loan portfolio. The lower provision in 2003 versus 2002 was attributable to a number of factors, but was primarily a result of the decrease in nonperforming loans during 2003. The continued challenging economic conditions during 2003 and the resulting impact on asset quality as evidenced by the percentage of internally classified loans in 2003 was also a factor in the determination of the provision for loan losses. The Company's management continues to monitor the adequacy of the provision based on loan levels, asset quality, economic conditions and other factors that may influence the assessment of the collectability of loans.

Noninterest income was \$18.4 million in 2003 versus \$14.9 million in 2002, an increase of \$3.6 million, or 24.0%. The increase was driven by a \$1.1 million, or 57.7%, increase in gains on sale of mortgages, from \$1.9 million in 2002 to \$3.0 million in 2003. This increase was a result of the increased level of mortgage activity during 2003. Additionally, noninterest income increased due to a \$558,000 reduction in the charge for non-cash impairment of the Company's mortgage servicing rights, a \$624,000 increase in the earnings on life insurance, a \$445,000 increase in gains on securities sold and a \$411,000 increase in operating lease income. The Company does not expect the level of mortgage activity seen during 2003 to continue and therefore does not expect mortgage sale gains to remain at the level seen during 2003. The increase in earnings on life insurance occurred primarily due to the life insurance not being put into place until the fourth quarter of 2002.

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

As a result of these factors, income before income tax expense increased \$1.8 million, or 9.6%, from \$18.9 million in 2002 to \$20.7 million in 2003. Income tax expense was \$6.8 million in 2003 versus \$6.5 million in 2002. Income tax as a percentage of income before tax was 33.0% in 2003 versus 34.5% in 2002. The lower tax rate resulted from increased investment in tax advantaged securities and investments and an increase in the level of income derived from the investment subsidiary. Net income increased \$1.5 million, or 12.1%, to \$13.9 million in 2003 versus \$12.4 million in 2002. Basic earnings per share in 2003 was \$2.38, an increase of 11.7%, versus \$2.13 in 2002. The

Company's net income performance represented a 16.5% return on January 1, 2003, stockholders' equity versus 16.8% in 2002. The net income performance resulted in a 1.12% return on average daily assets in 2003 versus 1.08% in 2002.

2002 versus 2001

The Company reported record net income of \$12.4 million in 2002, an increase of \$2.3 million, or 22.3%, versus net income of \$10.1 million in 2001. Net interest income increased \$4.4 million, or 11.7%, to \$41.8 million versus \$37.4 million in 2001. Net interest income increased primarily due to the implementation of a liability pricing strategy during 2001 that resulted in an improved net interest margin and growth in the loan portfolio. Interest income decreased \$12.3 million, or 16.0%, from \$76.6 million in 2001 to \$64.3 million in 2002. The decrease was driven primarily by a 134 basis point reduction in the tax equivalent yield on average earning assets over the year. Interest expense decreased \$16.7 million, or 42.5%, from \$39.2 million in 2001 to \$22.6 million in 2002. The decrease was primarily the result of a 163 basis point decrease in the Company's daily cost of funds over the year. The Company had a net interest margin of 4.02% in 2002 versus 3.71% in 2001. Average earning assets increased by \$27.1 million to \$1.1 billion in 2002 versus \$1.0 billion in 2001. The primary driver was a \$40.1 million increase in the average daily loan balance. Deposits increased to fund the loan growth during 2002, driven primarily by increases of \$13.6 million in the average daily time deposit balances and increases of \$13.2 million in the average daily demand deposit balances. The increase in average daily total deposits occurred despite the impact of the Company's September, 2001 branch divestiture, which included \$70.3 million in deposits.

Nonaccrual loans were \$4.2 million, or 0.51% of total loans, at year end versus \$2.2 million, or 0.30% of total loans, at the end of 2001. There were nine relationships totaling \$7.3 million classified as impaired as of December 31, 2002 versus six relationships totaling \$10.0 million at the end of 2001. One commercial credit represented \$3.2 million of this amount in 2002. The renewal of this loan was complicated as more than one bank was involved, and it was past maturity, however at year end 2002 the loan was current as to principal and interest. The removal of one credit that had a balance of \$7.5 million at December 31, 2001 was offset by the addition of the aforementioned loan. The impaired loan that was removed from impaired status had been current on principal and interest for most of 2002 and was restructured as a personal loan to the principal of the corporate entity with the support of both the existing collateral and new collateral in the form of life insurance and additional pledged securities. In addition, full payment under the loan terms was expected. Net charge-offs were \$1.5 million in 2002 versus \$1.4 million in 2001, representing 0.19% and 0.19% of average daily loans in 2002 and 2001. The provision for loan loss expense was \$3.1 million in 2002, resulting in an allowance for loan losses at December 31, 2002 of \$9.5 million, which represented 1.16% of the loan portfolio, versus \$7.9 million in 2001, or 1.08% of the loan portfolio. The higher provision in 2002 versus 2001 was attributable to a number of factors, but was primarily a result of the more challenging economic conditions during 2002 and the resulting impact on asset quality as evidenced by an increase in the percentage of internally classified loans in 2002. The growth of the commercial loan portfolio was also a factor in the determination of the provision for loan losses.

Noninterest income was \$14.9 million in 2002 versus \$13.6 million in 2001, an increase of \$1.3 million, or 9.7%. The increase was driven by a \$1.4 million, or 26.1%, increase in service charges on deposit accounts which was largely due to fees related to new deposit services which were implemented in the first quarter of 2002, as well as fees associated with business checking accounts. The increase in noninterest income was also reflective of the low interest rate environment which encouraged new mortgage and mortgage refinancing activity. The increased mortgage activity resulted in a rise in the gains on sale of mortgages, which were \$1.9 million versus \$1.2 million in 2001, an increase of 55.4%. Trust and brokerage fees decreased \$197,000, or 7.4%, to \$2.5 million versus \$2.6 million in 2001 as a result of a reduction in brokerage income from \$1.1 million in 2001 to \$695,000 in 2002. During 2001, the Company sold five non-strategic branches resulting in a gain of \$753,000.

Noninterest expense increased 2.5% from \$33.9 million in 2001 to \$34.7 million in 2002. Salaries and wages increased \$1.2 million, or 6.8%, to \$18.5 million in 2002 versus \$17.3 million in 2001. This increase was attributable to normal salary increases, increases related to the employee 401(k) plan and an expanded incentive compensation plan. Net occupancy expense and equipment costs decreased from \$4.9 million in 2001 to \$4.7 million in 2002 as a result of the sale of five non-strategic branches during the second half of 2001 and reductions in some operating expenses.

As a result of these factors, income before income tax expense increased \$4.0 million, or 27.1%, from \$14.9 million in 2001 to \$18.9 million

in 2002. Income tax expense was \$6.5 million in 2002 versus \$4.7 million in 2001. Income tax as a percentage of income before tax was 34.5% in 2002 versus 31.9% in 2001. The increase in income tax as a percentage of income before tax was primarily due to greater profitability, as well as the adoption of FASB 147 during 2002, which resulted in the Company reversing previously amortized goodwill and related taxes for the year of \$378,000. Both of these resulted in a higher percentage of income being subject to state franchise tax combined with the Company being taxed at the 35% federal tax rate in 2002 versus the 34% rate in 2001. Net income increased \$2.3 million, or 22.3%, to \$12.4 million in 2002 versus \$10.1 million in 2001. Basic earnings per share in 2002 was \$2.13, an increase of 22.4%, versus \$1.74 in 2001. The Company's net income performance represented a 16.8% return on January 1, 2002, stockholders' equity versus 15.6% in 2001. The net income performance resulted in a 1.08% return on average daily assets in 2002 versus 0.90% in 2001.

FINANCIAL CONDITION

As of December 31, 2003, the Company had 43 offices serving twelve counties in northern Indiana. The Company added two new offices during 2003. Since 1996, the Company has added seventeen new offices through acquisition and internal growth. The Company opened a thirteenth office in Kosciusko County and a fourth office in Allen County as part of its acquisition of Indiana Capital Management's Fort Wayne Office in 2003 and also continues to evaluate additional expansion opportunities. The Company will consider future acquisition and expansion opportunities with an emphasis on markets that it believes would be receptive to its business philosophy of local, independent banking. The Company sold five southern market branches during the third quarter of 2001 in order to help position the Company to focus on growth opportunities in its core northern markets, which are anchored by the cities of Warsaw, Fort Wayne, Elkhart and South Bend, Indiana.

Total assets of the Company were \$1.271 billion as of December 31, 2003, an increase of \$22.4 million, or 1.8%, when compared to \$1.249 billion as of December 31, 2002.

Total cash and cash equivalents decreased by \$29.7 million, or 34.1%, to \$57.4 million at December 31, 2003 from \$87.1 million at December 31, 2002. The decrease was primarily attributable to the funding of real estate mortgage loans due to an increase in demand resulting from falling interest rates during the first half of 2003.

Total securities available for sale increased by \$7.3 million, or 2.6%, to \$281.4 million at December 31, 2003 from \$274.1 million at December 31, 2002. The increase was a result of a number of activities in the securities portfolio. Paydowns of \$113.1 million were received, and the amortization of premiums, net of the accretion of discounts, was \$1.5 million. Maturities, calls and sales of securities totaled \$33.6 million. The fair value of the securities decreased \$7.5 million as a result of generally lower interest rates. These portfolio decreases were offset by securities purchases totaling \$162.5 million. The investment portfolio is managed to limit the Company's exposure to risk and contains mostly collateralized mortgage obligations and other securities which are either directly or indirectly backed by the federal government or a local municipal government. The investment portfolio did not contain any corporate debt instruments or trust preferred instruments as of December 31, 2003.

Real estate mortgages held for sale decreased by \$7.0 million, or 67.0%, to \$3.4 million at December 31, 2003 from \$10.4 million at December 31, 2002. The balance of this asset category is subject to a high degree of variability depending on, among other things, recent mortgage loan rates and the timing of loan sales into the secondary market. During 2003, \$143.2 million in real estate mortgages were originated for sale and \$150.2 million in mortgages were sold, compared to \$93.8 and \$91.8 in 2002.

Total loans, excluding real estate mortgages held for sale, increased by \$48.2 million or 5.9%, to \$870.9 million at December 31, 2003 from \$822.7 million at December 31, 2002. The mix of loan types within the Company's portfolio extended a trend toward a higher percentage of the total loan portfolio being in commercial loans. The portfolio breakdown at year end 2003 reflected 78% commercial, 5% real estate and 17% consumer loans compared to 76% commercial, 6% real estate and 18% consumer loans at December 31, 2002.

At December 31, 2003, the allowance for loan losses was \$10.2 million, or 1.18% of total loans outstanding, versus \$9.5 million, or 1.16%, of total loans outstanding at December 31, 2002. The process of identifying probable credit losses is a subjective process. Therefore, the Company maintains a general allowance to cover probable incurred credit losses within the entire portfolio. The methodology management uses to determine the adequacy of the loan loss reserve includes the following considerations.

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

Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that management believes will be adequate to absorb probable incurred losses relating to specifically identified loans based on an evaluation, as well as other probable incurred losses inherent in the loan portfolio. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to repay. Management also considers trends in adversely classified loans based upon a monthly review of those credits. An appropriate level of general allowance is determined based on the application of historical loss percentages to graded loans by categories. Federal regulations require insured institutions to classify their own assets on a regular basis. The regulations provide for three categories of classified loans - substandard, doubtful and loss. The regulations also contain a special mention category. Special mention is defined as loans that do not currently expose an insured institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified as loss, the insured institution must either establish specified allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge off such amount. At December 31, 2003, on the basis of management's review of the loan portfolio, the Company had loans totaling \$70.4 million on the classified loan list versus \$75.0 million on December 31, 2002. As of December 31, 2003, the Company had \$41.9 million of assets classified special mention, \$27.7 million classified as substandard, \$869,000 classified as doubtful and \$0 classified as loss as compared to \$47.6 million, \$27.0 million, \$211,000 and \$200,000 at December 31, 2002.

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

The Company has experienced growth in total loans over the last three years of \$152.0 million, or 21.1%. The concentration of this loan growth was in the commercial loan portfolio. Commercial loans comprised 78%, 76% and 73% of the total loan portfolio at December 31, 2003, 2002 and 2001. Traditionally, this type of lending may have more credit risk than other types of lending because of the size and diversity of the credits. The Company manages this risk by adjusting its pricing to the perceived risk of each individual credit and by diversifying the portfolio by customer, product, industry and geography. Management believes that it is prudent to continue to provide for loan losses in a manner consistent with its historical approach due to loan growth described above and current economic conditions.

As a result of the methodology in determining the adequacy of the allowance for loan losses, the provision for loan losses was \$2.3 million in 2003 versus \$3.1 million in 2002. At December 31, 2003 total nonperforming loans decreased by \$3.9 million to \$3.7 million from \$7.6 million at December 31, 2002. Loans delinquent 90 days or more that were included in the accompanying financial statements as accruing totaled \$3.2 million versus \$3.4 million at December 31, 2002. Total impaired loans decreased by \$4.3 million to \$3.0 million at December 31, 2003 from \$7.3 million at December 31, 2002. The decreases in nonperforming loans and impaired loans resulted from payments on six commercial loans including one loan of \$1.7 million. The loans delinquent 90 days or more total includes one commercial credit for \$2.9 million and \$3.2 million in 2003 and 2002. The renewal of this loan has been

complicated as more than one bank is involved, and it remains past maturity. The loan first became delinquent in 2002 and the maturity has not been extended. While this loan is current as to principal and interest, there can be no assurance that it will remain current given the circumstances involved. The impaired loan total includes \$127,000 in nonaccrual loans. The Company allocated \$456,000 and \$1.3 million of the allowance for loan losses to the impaired loans in 2003 and 2002. A loan is impaired when full payment under the original loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

The Company believes that the improvement in total nonperforming loans is a reflection of the continued focus on enforcement of a strong credit environment, an aggressive position on loan work-out situations and a general improvement in the regional economic conditions. The allowance for loan loss to total loans percentage increased from 1.16% in 2002 to 1.18% in 2003. Despite these factors, the Company does not believe that it has experienced a dramatic change in overall asset quality. Nonetheless, the Company believes that its overall expansion strategy has employed a credit risk management approach that promotes diversification and therefore creates a balanced portfolio with appropriate risk parameters.

Total deposits increased by \$13.1 million, or 1.4%, to \$926.4 million at December 31, 2003 from \$913.3 million at December 31, 2002. The increase resulted from increases of \$80.5 million in NOW accounts, \$49.6 million in Investors' Money Market accounts, \$17.9 million in money market accounts and \$8.1 million in savings accounts. Offsetting these increases were declines of \$136.0 million in certificates of deposit and \$7.1 million in demand deposit accounts. The Company believes that this shift from certificates of deposits to shorter term, liquid deposits is a reflection of the low interest rate environment.

Total short-term borrowings decreased by \$207,000, or 0.1%, to \$184.8 million at December 31, 2003 from \$185.0 million at December 31, 2002. The decrease resulted from decreases of \$22.4 million in securities sold under agreements to repurchase, \$6.0 million in federal fund purchases and \$840,000 in U.S. Treasury demand notes combined with a \$29.0 million increase in Federal Home Loan Bank advances.

The Company believes that a strong, appropriately managed capital position is critical to long-term earnings and expansion. Bank regulatory agencies exclude the market value adjustment created by SFAS No. 115 (AFS adjustment) from capital adequacy calculations. Excluding this adjustment from the calculation, the Company had a total risk-based capital ratio of 12.8% and Tier I risk-based capital ratio of 11.8% as of December 31, 2003. These ratios met or exceeded the Federal Reserve's "well-capitalized" minimums of 10.0% and 6.0%, respectively.

The ability to maintain and grow these ratios is a function of the balance between net income and a prudent dividend policy. Total stockholders' equity increased by 7.3% to \$90.0 million as of December 31, 2003, from \$83.9 million as of December 31, 2002. The increase in 2003 resulted from net income of \$13.9 million less the following factors:

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

In addition, effective January 1, 2003, the Company's directors' deferred plan compensation plan was amended to no longer permit diversification outside of Company stock and to require that settlement of deferred balances be made in shares of Company stock. In accordance with EITF 97-14: "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested," on the date of the plan change, the \$949,000 current value of the liability for the Company shares was transferred to additional paid-in-capital from other liabilities. Subsequent payments under the deferred directors' plan of \$204,000 were made to paid-in-capital under the new plan. Total stockholders' equity increased by 14.1% to \$83.9 million as of December 31, 2002, from \$73.5 million as of December 31, 2001.

The increase in 2002 resulted from net income of \$12.4 million less the following factors:

- o cash dividends of \$3.9 million,
- o a favorable change in the AFS adjustment of \$2.5 million, net of tax,
- o a negative minimum pension liability adjustment of \$343,000, net of tax, and
- o \$197,000 for the purchase of treasury stock.

The 2003 AFS adjustment reflected a 56 basis point increase in the two to five year U.S. Treasury rates during 2003. Due to the fact that the securities portfolio is primarily fixed rate, a negative equity adjustment would likely occur if interest rates increased. Management has factored this into the determination of the size of the AFS portfolio to assure that stockholders' equity is adequate under various scenarios.

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

Critical Accounting Policies

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

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

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

The valuation of mortgage servicing rights may be difficult due to the number of assumptions that could be used to value the servicing retained and the servicing rights themselves are not tangible. The Company does not have a large mortgage origination business and feels that the business closely reflects industry standards for the amount of mortgage origination activity it conducts. Industry software is used to value the servicing rights, and there are no assumptions applied that could be considered outside industry standards.

Liquidity

Management maintains a liquidity position that it believes will adequately provide funding for loan demand and deposit run-off that may occur in the normal course of business. The Company relies on a number of different sources in order to meet these potential liquidity demands. The primary sources are increases in deposit accounts and cash flows from loan payments and the securities portfolio. Given current prepayment assumptions, the cash flow from the securities portfolio is expected to provide approximately \$49.8 million of funding in 2004.

In addition to these primary sources of funds, management has several secondary sources available to meet potential funding requirements. As of December 31, 2003, the Company had \$110.0 million in Federal Fund lines with correspondent banks and may borrow up to \$100.0 million at the Federal Home Loan Bank of Indianapolis. The Company has its securities in the available for sale (AFS) portfolio. Therefore the Company may sell securities to meet funding demands. Management believes that the securities in the AFS portfolio are of high quality and would therefore be marketable. Approximately 81.0% of this portfolio is comprised of Federal agency securities or mortgage-backed securities directly or indirectly backed by the Federal government. In addition, the Company has historically sold mortgage loans on the secondary market to reduce interest rate risk and to create an additional source of funding.

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

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

During 2001, cash and cash equivalents decreased \$9.9 million from \$89.0 million as of December 2000 to \$79.1 million as of December 31, 2001. The primary reason for this decrease was the effect of the branch sale. Other uses of funds were purchases of securities, an increase in loans and payments for the branch sale. Purchases of securities totaled \$71.7 million. Net loans increased \$46.6 million in 2001, which was net of approximately \$68.3 million of loans originated and sold during 2001. Payments for the branch sale were \$40.2 million. The major sources of funds included proceeds from sales, calls and maturities of securities of \$96.5 million and proceeds from the sale of loans of \$60.8 million. Lower interest rates created more demand for residential real estate mortgage loans and resulted in an increase in proceeds from the sale of mortgage loans.

The following tables disclose information on the maturity of the Company's contractual long-term obligations and commitments.

Payments Due by Period

| | Total | One year or less | 1-3 years | 4-5 years | After 5 years |
|---|------------------|---------------------|------------------|---------------|------------------|
| | (in thousands) | | | | |
| Long-term debt | \$ 30,047 | \$ 20,000 | \$ 10,000 | \$ 0 | \$ 47 |
| Operating leases | 451 | 112 | 203 | 134 | 2 |
| Subordinated debentures | 30,928 | 0 | 0 | 0 | 30,928 |
| Total contractual long-term cash obligations | \$ 61,426 | \$ 20,112 | \$ 10,203 | \$ 134 | \$ 30,977 |

Amount of Commitment Expiration Per Period

| | Total Amount Committed | One year or less | Over one year |
|--|------------------------------|---------------------|-------------------|
| | (in thousands) | | |
| Unused loan commitments | \$ 319,073 | \$ 216,411 | \$ 102,662 |
| Commercial letters of credit | 251 | 251 | 0 |
| Standby letters of credit | 11,173 | 10,149 | 1,024 |
| Total commitments and letters of credit | \$ 330,497 | \$ 226,811 | \$ 103,686 |

Inflation

The effects of price changes and inflation can vary substantially for most financial institutions. While management believes that inflation affects the growth of total assets, it believes that it is difficult to assess the overall impact. Management believes this to be the case due to the fact that generally neither the timing nor the magnitude of the inflationary changes in the consumer price index ("CPI") coincides with changes in interest rates. The price of one or more of the components of the CPI may fluctuate considerably and thereby influence the overall CPI without having a corresponding affect on interest rates or upon the cost of those goods and services normally purchased by the Company. In years of high inflation and high interest rates, intermediate and long-term interest rates tend to increase, thereby adversely impacting the market values of investment securities, mortgage loans and other long-term fixed rate loans. In addition, higher short-term interest rates caused by inflation tend to increase the cost of funds. In other years, the reverse situation may occur.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset/Liability Management (ALCO) and Securities

Interest rate risk represents the Company's primary market risk exposure. The Company does not have material exposure to foreign currency exchange risk, does not own any material derivative financial instruments and does not maintain a trading portfolio. The Board of Directors annually reviews and approves the ALCO policy used to manage interest rate risk. This policy sets guidelines for balance sheet structure, which are designed to protect the Company from the impact that interest rate changes could have on net income, but does not necessarily indicate the effect on future net interest income. Given the Company's mix of interest bearing liabilities and interest bearing assets on December 31, 2003, the net interest margin could be expected to decline in a falling interest rate environment and conversely, to increase in a rising rate environment. The low rate environment at the end of 2002, resulting from interest rate reductions by the Federal Open Market Committee (the "FOMC") during 2001 and in November, 2002, continued to have an adverse impact on the Company's net interest margin. In June, 2003, the FOMC reduced the target for the Federal Funds rate 25 basis points from 1.25% to 1.00%. This action resulted in the Bank lowering its Base Rate from 4.25% to 4.00%. Due to the asset sensitive nature of the Company's balance sheet, this reduction in the prime rate had an additional adverse impact on the net interest margin during 2003. The Company utilizes a computer program to stress test the balance sheet under a wide variety of interest rate scenarios. The model quantifies the income impact of changes in customer preference for products, basis risk between the assets and the liabilities that support them and the risk inherent in different yield curves, as well as other factors. The ALCO committee reviews these possible outcomes and makes loan, investment and deposit decisions that maintain reasonable balance sheet structure in light of potential interest rate movements. Although management does not consider GAP

ratios in this planning, the information can be used in a general fashion to look at asset and liability mismatches. The Company's cumulative repricing GAP ratio as of December 31, 2003, for the next 12 months using a rates unchanged scenario was a negative 9.10% of earning assets.

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

2003
Principal/Notional Amount Maturing in:

(in thousands)

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter | Total | Fair Value 12/31/2003 |
|-------------------------------------|------------|-----------|-----------|-----------|-----------|------------|------------|--------------------------|
| Rate sensitive assets: | | | | | | | | |
| Fixed interest rate loans | \$ 119,633 | \$ 65,696 | \$ 53,759 | \$ 33,556 | \$ 38,421 | \$ 15,955 | \$ 327,020 | \$ 332,837 |
| Average interest rate | 6.49% | 6.56% | 6.41% | 6.36% | 5.92% | 6.39% | 6.41% | |
| Variable interest rate loans | \$ 506,402 | \$ 1,274 | \$ 1,298 | \$ 1,319 | \$ 1,314 | \$ 32,255 | \$ 543,862 | \$ 541,890 |
| Average interest rate | 4.30% | 4.59% | 4.59% | 4.61% | 4.54% | 5.06% | 4.36% | |
| Fixed interest rate securities | \$ 19,199 | \$ 19,494 | \$ 19,689 | \$ 22,637 | \$ 27,797 | \$ 171,936 | \$ 280,752 | \$ 280,661 |
| Average interest rate | 4.58% | 4.46% | 4.51% | 4.33% | 4.18% | 4.45% | 4.43% | |
| Variable interest rate securities | \$ 200 | \$ 145 | \$ 108 | \$ 83 | \$ 60 | \$ 95 | \$ 691 | \$ 706 |
| Average interest rate | 5.62% | 6.58% | 5.57% | 4.69% | 4.25% | 3.42% | 5.28% | |
| Other interest-bearing assets | \$ 5,144 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,144 | \$ 5,144 |
| Average interest rate | 0.98% | - | - | - | - | - | 0.98% | |
| Rate sensitive liabilities: | | | | | | | | |
| Non-interest bearing checking | \$ 9,658 | \$ 8,618 | \$ 1,560 | \$ 1,486 | \$ 2,173 | \$ 162,239 | \$ 185,734 | \$ 185,734 |
| Average interest rate | | | | | | | | |
| Savings & interest bearing checking | \$ 28,727 | \$ 25,936 | \$ 23,034 | \$ 20,923 | \$ 16,776 | \$ 324,758 | \$ 440,154 | \$ 440,154 |
| Average interest rate | 0.91% | 0.91% | 0.91% | 0.91% | 0.91% | 0.74% | 0.79% | |
| Time deposits | \$ 175,302 | \$ 71,067 | \$ 15,286 | \$ 28,526 | \$ 9,372 | \$ 950 | \$ 300,503 | \$ 305,003 |
| Average interest rate | 2.07% | 2.87% | 2.97% | 4.87% | 3.65% | 2.89% | 2.63% | |
| Fixed interest rate borrowings | \$ 159,761 | \$ 10,000 | \$ - | \$ - | \$ - | \$ 47 | \$ 169,808 | \$ 170,089 |
| Average interest rate | 1.20% | 2.36% | - | - | - | 6.15% | 1.27% | |
| Variable interest rate borrowings | \$ 45,000 | \$ - | \$ - | \$ - | \$ - | \$ 30,928 | \$ 75,928 | \$ 75,974 |
| Average interest rate | 1.31% | - | - | - | - | 1.14% | 1.24% | |

2002
Principal/Notional Amount Maturing in:

(in thousands)

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter | Total | Fair Value 12/31/2002 |
|-------------------------------------|------------|-----------|-----------|-----------|-----------|------------|------------|--------------------------|
| Rate sensitive assets: | | | | | | | | |
| Fixed interest rate loans | \$ 108,157 | \$ 90,362 | \$ 54,746 | \$ 31,689 | \$ 21,441 | \$ 7,199 | \$ 313,594 | \$ 319,099 |
| Average interest rate | 7.11% | 7.46% | 7.29% | 7.28% | 6.72% | 7.54% | 7.24% | |
| Variable interest rate loans | \$ 472,951 | \$ 1,229 | \$ 1,187 | \$ 1,147 | \$ 1,139 | \$ 31,429 | \$ 509,082 | \$ 507,516 |
| Average interest rate | 4.53% | 7.74% | 7.33% | 6.97% | 6.64% | 4.85% | 4.58% | |
| Fixed interest rate securities | \$ 93,507 | \$ 90,190 | \$ 28,908 | \$ 10,261 | \$ 5,944 | \$ 36,801 | \$ 265,611 | \$ 273,017 |
| Average interest rate | 6.21% | 6.06% | 5.75% | 6.16% | 5.50% | 5.00% | 5.18% | |
| Variable interest rate securities | \$ 110 | \$ 110 | \$ 110 | \$ 110 | \$ 110 | \$ 506 | \$ 1,056 | \$ 1,088 |
| Average interest rate | 4.59% | 5.22% | 5.22% | 5.22% | 5.22% | 5.44% | 5.30% | |
| Other interest-bearing assets | \$ 13,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 13,000 | \$ 13,000 |
| Average interest rate | 1.25% | - | - | - | - | - | 1.25% | |
| Rate sensitive liabilities: | | | | | | | | |
| Non-interest bearing checking | \$ 10,025 | \$ 8,945 | \$ 1,620 | \$ 1,542 | \$ 2,256 | \$ 168,399 | \$ 192,787 | \$ 192,787 |
| Average interest rate | | | | | | | | |
| Savings & interest bearing checking | \$ 17,448 | \$ 15,754 | \$ 13,991 | \$ 12,708 | \$ 10,190 | \$ 213,992 | \$ 284,083 | \$ 284,083 |
| Average interest rate | 1.23% | 1.23% | 1.23% | 1.23% | 1.23% | 0.98% | 1.05% | |
| Time deposits | \$ 335,796 | \$ 45,339 | \$ 22,332 | \$ 3,229 | \$ 28,298 | \$ 1,461 | \$ 436,455 | \$ 442,948 |
| Average interest rate | 2.32% | 3.84% | 4.06% | 3.82% | 4.92% | 2.99% | 2.75% | |
| Fixed interest rate borrowings | \$ 170,268 | \$ 20,000 | \$ - | \$ - | \$ - | \$ 20,619 | \$ 210,887 | \$ 212,990 |
| Average interest rate | 1.28% | 3.96% | - | - | - | 8.95% | 2.24% | |
| Variable interest rate borrowings | \$ 26,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 26,000 | \$ 26,000 |
| Average interest rate | 1.33% | - | - | - | - | - | 1.33% | |

These tables illustrate the Company's growth during 2003 and the effect of the rate cuts during fiscal years 2003 and 2002. The changes in the balances primarily reflect the growth of the Company's existing offices and acceptance of the one office opened during 2003. The increase in loans during 2003 was driven primarily by strong growth in the Company's commercial loan portfolio. The average interest rates show the effect of the low interest rate environment during the year.

The Company's investment portfolio consists of agencies, mortgage-backed securities and municipal bonds. During 2003, purchases in the securities portfolio consisted primarily of agency securities and municipal bonds. As of December 31, 2003, the Company's investment in mortgage-backed securities represented approximately 75% of total securities and consisted of CMOs and mortgage pools issued by GNMA, FNMA and FHLMC. The federal government backs these securities, directly or indirectly. All mortgage securities purchased by the Company are within risk tolerances for price, prepayment, extension and original life risk characteristics contained in the Company's investment policy. The Company uses Bloomberg analytics to evaluate and monitor all purchases. As of December 31, 2003, the securities in the AFS portfolio had approximately a three year average life with approximately 12% price depreciation in the event of a 300 basis points upward movement. The portfolio had approximately 6% price appreciation in the event of a 300 basis point downward movement in rates. As of December 31, 2003, all mortgage securities were performing in a manner consistent with management's original expectations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS (in thousands except share data)

| December 31 | 2003 | 2002 |
|--|--------------|--------------|
| ASSETS | | |
| Cash and due from banks | \$ 52,297 | \$ 74,149 |
| Short-term investments | 5,144 | 13,000 |
| Total cash and cash equivalents | 57,441 | 87,149 |
| Securities available for sale (carried at fair value) | 281,367 | 274,105 |
| Real estate mortgages held for sale | 3,431 | 10,395 |
| Total loans | 870,882 | 822,676 |
| Less allowance for loan losses | 10,234 | 9,533 |
| Net loans | 860,648 | 813,143 |
| Land, premises and equipment, net | 26,157 | 24,768 |
| Accrued income receivable | 5,010 | 4,999 |
| Goodwill | 4,970 | 4,970 |
| Other intangible assets | 1,460 | 1,042 |
| Other assets | 30,930 | 28,489 |
| Total assets | \$ 1,271,414 | \$ 1,249,060 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Noninterest bearing deposits | \$ 185,734 | \$ 192,787 |
| Interest bearing deposits | 740,657 | 720,538 |
| Total deposits | 926,391 | 913,325 |
| Short-term borrowings | | |
| Federal funds purchased | 24,000 | 30,000 |
| Securities sold under agreements to repurchase | 102,601 | 124,968 |
| U.S. Treasury demand notes | 3,160 | 4,000 |
| Other short-term borrowings | 55,000 | 26,000 |
| Total short-term borrowings | 184,761 | 184,968 |
| Accrued expenses payable | 7,804 | 12,503 |
| Other liabilities | 1,461 | 2,417 |
| Long-term borrowings | 30,047 | 31,348 |
| Subordinated debentures | 30,928 | 20,619 |
| Total liabilities | 1,181,392 | 1,165,180 |
| Commitments, off-balance sheet risks and contingencies | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock: 90,000,000 shares authorized, no par value | | |
| 5,834,744 shares issued and 5,788,263 outstanding as of December 31, 2003; | | |
| 5,813,984 shares issued and 5,767,010 outstanding as of December 31, 2002 | 1,453 | 1,453 |
| Additional paid-in capital | 10,509 | 8,537 |
| Retained earnings | 80,260 | 70,819 |
| Accumulated other comprehensive income (loss) | (1,282) | 3,937 |
| Treasury stock, at cost (2003 - 46,481 shares, 2002 - 46,974 shares) | (918) | (866) |
| Total stockholders' equity | 90,022 | 83,880 |
| Total liabilities and stockholders' equity | \$ 1,271,414 | \$ 1,249,060 |

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

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

| Year Ended December 31 | 2003 | 2002 | 2001 |
|--|-----------|-----------|-----------|
| NET INTEREST INCOME | | | |
| Interest and fees on loans | | | |
| Taxable | \$ 46,861 | \$ 49,083 | \$ 58,348 |
| Tax exempt | 280 | 181 | 138 |
| Interest and dividends on securities | | | |
| Taxable | 10,946 | 13,205 | 15,874 |
| Tax exempt | 2,061 | 1,607 | 1,770 |
| Interest on short-term investments | 188 | 259 | 485 |
| Total interest income | 60,336 | 64,335 | 76,615 |
| Interest on deposits | 14,079 | 17,091 | 29,850 |
| Interest on borrowings | | | |
| Short-term | 1,110 | 2,552 | 6,904 |
| Long-term | 2,948 | 2,915 | 2,476 |
| Total interest expense | 18,137 | 22,558 | 39,230 |
| NET INTEREST INCOME | 42,199 | 41,777 | 37,385 |
| Provision for loan losses | 2,254 | 3,056 | 2,225 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 39,945 | 38,721 | 35,160 |
| NONINTEREST INCOME | | | |
| Trust and brokerage income | 2,370 | 2,451 | 2,648 |
| Service charges on deposit accounts | 6,860 | 6,717 | 5,326 |
| Other income | 5,679 | 3,726 | 3,475 |
| Net gain on sale of branches | 0 | 0 | 753 |
| Net gains on sale of real estate mortgages held for sale | 3,018 | 1,914 | 1,232 |
| Net securities gains | 500 | 55 | 120 |
| Total noninterest income | 18,427 | 14,863 | 13,554 |
| NONINTEREST EXPENSE | | | |
| Salaries and employee benefits | 19,829 | 18,501 | 17,324 |
| Net occupancy expense | 2,444 | 2,174 | 2,080 |
| Equipment costs | 2,538 | 2,483 | 2,801 |
| Loss on extinguishment of debt | 804 | 0 | 0 |
| Other expense | 12,064 | 11,540 | 11,652 |
| Total noninterest expense | 37,679 | 34,698 | 33,857 |
| INCOME BEFORE INCOME TAX EXPENSE | 20,693 | 18,886 | 14,857 |
| Income tax expense | 6,828 | 6,520 | 4,744 |
| NET INCOME | \$ 13,865 | \$ 12,366 | \$ 10,113 |
| BASIC WEIGHTED AVERAGE COMMON SHARES | | | |
| | 5,819,916 | 5,813,984 | 5,813,984 |
| BASIC EARNINGS PER COMMON SHARE | | | |
| | \$ 2.38 | \$ 2.13 | \$ 1.74 |
| DILUTED WEIGHTED AVERAGE COMMON SHARES | | | |
| | 6,001,449 | 5,958,386 | 5,841,196 |
| DILUTED EARNINGS PER COMMON SHARE | | | |
| | \$ 2.31 | \$ 2.08 | \$ 1.73 |

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

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

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Stockholders' Equity |
|---|-----------------|----------------------------------|----------------------|--|-------------------|----------------------------------|
| Balance at January 1, 2001 | \$ 1,453 | \$ 8,537 | \$ 55,734 | \$ (207) | \$ (544) | \$ 64,973 |
| Comprehensive income: | | | | | | |
| Net income | | | 10,113 | | | 10,113 |
| Unrealized gain/(loss) on available for sale securities arising during the period | | | | 2,556 | | 2,556 |
| Reclassification adjustments for accumulated (gains) losses included in net income, net of taxes | | | | (73) | | (73) |
| Net securities gain/(loss) activity during the period (net of taxes of \$1,411) | | | | 2,483 | | 2,483 |
| Minimum pension liability adjustment (net of taxes of \$(290)) | | | | (441) | | (441) |
| Comprehensive income | | | | | | 12,155 |
| Cash dividends declared, \$.60 per share | | | (3,469) | | | (3,469) |
| Acquisition of treasury stock | | | | | (125) | (125) |
| Balance at December 31, 2001 | 1,453 | 8,537 | 62,378 | 1,835 | (669) | 73,534 |
| Comprehensive income: | | | | | | |
| Net income | | | 12,366 | | | 12,366 |
| Unrealized gain/(loss) on available for sale securities arising during the period | | | | 2,478 | | 2,478 |
| Reclassification adjustments for accumulated (gains) losses included in net income, net of taxes | | | | (33) | | (33) |
| Net securities gain/(loss) activity during the period (net of taxes of \$1,442) | | | | 2,445 | | 2,445 |
| Minimum pension liability adjustment (net of taxes of \$(245)) | | | | (343) | | (343) |
| Comprehensive income | | | | | | 14,468 |
| Cash dividends declared, \$.68 per share | | | (3,925) | | | (3,925) |
| Acquisition of treasury stock | | | | | (197) | (197) |
| Balance at December 31, 2002 | 1,453 | 8,537 | 70,819 | 3,937 | (866) | 83,880 |
| Comprehensive income: | | | | | | |
| Net income | | | 13,865 | | | 13,865 |
| Unrealized gain/(loss) on available for sale securities arising during the period | | | | (4,591) | | (4,591) |
| Reclassification adjustments for accumulated (gains) losses included in net income, net of taxes | | | | (297) | | (297) |
| Net securities gain/(loss) activity during the period (net of taxes of \$(2,626)) | | | | (4,888) | | (4,888) |
| Minimum pension liability adjustment (net of taxes of \$(226)) | | | | (331) | | (331) |
| Comprehensive income | | | | | | 8,646 |
| Cash dividends declared, \$.76 per share | | | (4,424) | | | (4,424) |
| Transfer of deferred directors' liability | | 949 | | | | 949 |
| Treasury shares purchased under deferred directors' plan (6,022 shares) | | 169 | | | (169) | 0 |
| Treasury stock sold and distributed under deferred directors' plan (6,515 shares) | | 35 | | | 117 | 152 |
| Stock issued for stock option exercises (20,760 shares) | | 484 | | | | 484 |
| Tax benefit of stock option exercises | | 81 | | | | 81 |
| Stock compensation expense | | 254 | | | | 254 |
| Balance at December 31, 2003 | \$ 1,453 | \$ 10,509 | \$ 80,260 | \$ (1,282) | \$ (918) | \$ 90,022 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

| Year Ended December 31 | 2003 | 2002 | 2001 |
|---|--------------|--------------|--------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 13,865 | \$ 12,366 | \$ 10,113 |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Depreciation | 2,210 | 2,291 | 2,338 |
| Provision for loan losses | 2,254 | 3,056 | 2,225 |
| Amortization of intangible assets | 154 | 176 | 825 |
| Amortization of loan servicing rights | 671 | 452 | 307 |
| Net impairment of loan servicing rights | (224) | 334 | 388 |
| Loans originated for sale | (143,230) | (93,751) | (68,306) |
| Net gain on sales of loans | (3,018) | (1,914) | (1,232) |
| Proceeds from sale of loans | 152,118 | 93,142 | 60,833 |
| Net (gain) loss on sale of premises and equipment | (101) | 25 | (14) |
| Gain on sale of branches | 0 | 0 | (753) |
| Net gain on sales of securities available for sale | (500) | (55) | (120) |
| Net securities amortization | 1,549 | 1,753 | 1,131 |
| Stock compensation expense | 254 | 0 | 0 |
| Earnings on life insurance | (692) | (68) | 0 |
| Net change: | | | |
| Income receivable | (11) | 442 | 1,303 |
| Accrued expenses payable | (1,404) | 1,666 | (2,291) |
| Other assets | 2,603 | 2,417 | 192 |
| Other liabilities | (958) | (680) | (127) |
| Total adjustments | 11,675 | 9,286 | (3,301) |
| Net cash from operating activities | 25,540 | 21,652 | 6,812 |
| Cash flows from investing activities: | | | |
| Proceeds from sale of securities available for sale | 14,338 | 5,771 | 18,450 |
| Proceeds from maturities, calls and principal paydowns of securities available for sale | 132,377 | 83,371 | 78,067 |
| Purchases of securities available for sale | (162,540) | (89,419) | (71,665) |
| Purchase of life insurance | (1,393) | (13,300) | 0 |
| Net increase in total loans | (51,681) | (85,966) | (46,643) |
| Proceeds from sales of land, premises and equipment | 159 | 11 | 0 |
| Purchases of land, premises and equipment | (3,627) | (2,843) | (1,476) |
| Increase in investment in unconsolidated subsidiary | (309) | 0 | 0 |
| Net payments in acquisition | (600) | 0 | 0 |
| Net payments from branch divestitures | 0 | 0 | (40,233) |
| Net cash from investing activities | (73,276) | (102,375) | (63,500) |
| Cash flows from financing activities: | | | |
| Net increase in total deposits | 13,066 | 119,945 | 18,300 |
| Proceeds from short-term borrowings | 24,459,723 | 28,841,949 | 32,481,163 |
| Payments on short-term borrowings | (24,459,930) | (28,889,098) | (32,449,124) |
| Proceeds from long-term borrowings | 40,928 | 20,000 | 0 |
| Payments on long-term borrowings | (31,920) | (41) | (44) |
| Dividends paid | (4,306) | (3,809) | (3,352) |
| Proceeds from the sale of common stock | 152 | 0 | 0 |
| Proceeds from stock option exercise | 484 | 0 | 0 |
| Purchase of treasury stock | (169) | (197) | (125) |
| Net cash from financing activities | 18,028 | 88,749 | 46,818 |
| Net change in cash and cash equivalents | (29,708) | 8,026 | (9,870) |
| Cash and cash equivalents at beginning of the year | 87,149 | 79,123 | 88,993 |
| Cash and cash equivalents at end of the year | \$ 57,441 | \$ 87,149 | \$ 79,123 |
| Cash paid during the year for: | | | |
| Interest | \$ 18,935 | \$ 22,610 | \$ 40,963 |
| Income taxes | 6,955 | 7,249 | 5,345 |
| Supplemental non-cash disclosures: | | | |
| Loans transferred to other real estate | 1,922 | 44 | 1,435 |
| Directors' deferred liability transferred from other liabilities to equity | 949 | 0 | 0 |

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation:

The consolidated financial statements include Lakeland Financial Corporation and its wholly-owned subsidiary, Lake City Bank, together referred to as (the "Company"). Also included in the consolidated financial statements is LCB Investments Limited, a wholly-owned subsidiary of Lake City Bank, which is a Bermuda corporation that manages a portion of the Bank's investment portfolio. All intercompany transactions and balances are eliminated in consolidation. As further discussed in Note 11, a trust that had previously been consolidated with the Company is now reported separately.

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

Use of Estimates:

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

Cash Flows:

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

Securities:

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Real Estate Mortgages Held for Sale:

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

Loans:

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

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt and the loan is placed on nonaccrual. All unpaid accrued interest is reversed and interest income is subsequently recorded only to the extent cash payments are received. Accrual status is resumed when all contractually due payments are brought current and future payments are reasonably assured. Consumer installment loans, except those loans that are secured by real estate, are not placed on a nonaccrual status since these loans are charged-off when they have been delinquent from 90 to 180 days, and when the related collateral, if any, is not sufficient to offset the indebtedness. Advances under Mastercard and Visa programs, as well as advances under all other consumer line of credit programs, are charged-off when collection appears doubtful.

Allowance for Loan Losses:

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

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

A loan is impaired when full payment under the original loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Mortgage and commercial loans, when they have been delinquent from 90 to 180 days, are reviewed to determine if a charge-off is necessary, if the related collateral, if any, is not sufficient to offset the indebtedness.

Investments in Limited Partnerships:

Investments in limited partnerships represent the Company's investments in affordable housing projects for the primary purpose of available tax benefits. The Company is a limited partner in these investments and as such, the Company is not involved in the management or operation of such investments. These investments are accounted for using the equity method of accounting. Under the equity method of accounting, the Company records its share of the partnership's earnings or losses in its income statement and adjusts the carrying amount of the investments on the balance sheet. These investments are measured for impairment through the lower of cost or market approach. The investment recorded at December 31, 2003 and 2002 was \$500,000 and \$495,000.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreclosed Assets:

Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. At December 31, 2003 and 2002, the balance of repossessed assets and real estate owned was \$584,000 and \$138,000 and are included with other assets on the balance sheet.

Land, Premises and Equipment:

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the useful lives of the assets. Premises assets have useful lives between 7 and 50 years. Equipment assets have useful lives between 3 and 10 years.

Loan Servicing Rights:

Loan servicing rights are recognized as assets for the allocated value of retained servicing rights on loans sold. Loan servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and secondarily, as to geographic and prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions.

Bank Owned Life Insurance:

At December 31, 2003 and 2002, the Company owned \$15.5 million and \$13.4 million of life insurance policies on certain officers to replace group term life insurance for these individuals. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized. Bank owned life insurance is included in other assets in the consolidated financial statements.

Goodwill and Other Intangible Assets:

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

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

Repurchase Agreements:

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

Long-term Assets:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Benefit Plans:

A noncontributory defined benefit pension plan covered substantially all employees until the plan was frozen. Funding of the plan equals or exceeds the minimum funding requirement determined by the actuary. The projected unit credit cost method is used to determine expense. Benefits are based on years of service and compensation levels. Effective April 1, 2000, the defined benefit pension plan was frozen. The Company maintains a directors' deferred compensation plan. A participant can elect to receive a return based on the performance of the Company's stock for their contribution. The Company acquires shares on the open market and records such shares as treasury stock. Effective January 1, 2003, the directors' deferred compensation plan was amended to restrict the deferral to be in stock only and deferred directors' fees are included in equity. Prior to amending the plan, deferred directors' fees were included in other liabilities.

Stock Compensation:

At the inception of the Lakeland Financial Corporation Stock Option Plan, there were 600,000 shares of common stock reserved for grants of stock options to employees of Lakeland Financial Corporation, its subsidiaries and Board of Directors. As of December 31, 2003, 521,475 options had been granted and 57,765 were available for future grants. These are accounted for under APB No. 25. Employee compensation expense under the stock option plan is reported if options are granted below market price at grant date. The Company has not made any such grants. Pro forma disclosures of net income and earnings per share are shown using the fair value method to measure expense for options granted using an option pricing model to estimate fair value.

Employee compensation expense under stock options is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant. Had compensation cost for stock options been recorded in the financial statements, net income and earnings per common share would have been the pro forma amounts indicated below. The pro forma effect may increase in the future if more options are granted.

| | 2003 | 2002 | 2001 |
|--|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| Net income (in thousands) as reported | \$ 13,865 | \$ 12,366 | \$ 10,113 |
| Deduct: stock-based compensation expense determined under fair value based method (in thousands) | 543 | 669 | 748 |
| | ----- | ----- | ----- |
| Pro forma net income (in thousands) | \$ 13,322 | \$ 11,697 | \$ 9,365 |
| | ===== | ===== | ===== |
| Basic earnings per common share as reported | \$ 2.38 | \$ 2.13 | \$ 1.74 |
| Pro forma basic earnings per common share | \$ 2.29 | \$ 2.01 | \$ 1.61 |
| Diluted earnings per common share as reported | \$ 2.31 | \$ 2.08 | \$ 1.73 |
| Pro forma diluted earnings per common share | \$ 2.22 | \$ 1.96 | \$ 1.60 |

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

| | | | |
|---------------------------|------------|------------|------------|
| Risk-free interest rate | 5.26% | 5.53% | 5.54% |
| Expected option life | 5.00 years | 5.00 years | 5.00 years |
| Expected price volatility | 73.13% | 76.37% | 76.23% |
| Dividend yield | 2.85% | 2.87% | 2.86% |

Income Taxes:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Off-Balance Sheet Financial Instruments:

Financial instruments include credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. The fair value of standby letters of credit is recorded as a liability during the commitment period in accordance with FASB Interpretation No. 45.

Earnings Per Common Share:

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements. The common shares outstanding for the Stockholders' Equity section of the Balance Sheet for 2003 and 2002 reflect the acquisition of 46,481 and 46,974 shares, respectively of Lakeland Financial Corporation common stock that have been purchased under the directors' deferred compensation plan described above. Because these shares are held in trust for the participants, they are treated as outstanding when computing the weighted-average common shares outstanding for the calculation of both basic and diluted earnings per share.

Comprehensive Income:

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

Loss Contingencies:

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

Restrictions on Cash:

The Company was required to have \$6.9 million and \$3.3 million of cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at year-end 2003 and 2002. These balances do not earn interest.

Dividend Restriction:

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to its shareholders. These restrictions pose no practical limit on the ability of the Bank or Company to pay dividends at historical levels.

Fair Value of Financial Instruments:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Industry Segments:

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

Adoption of New Accounting Standards:

During 2003, the Company adopted FASB Statement 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, FASB Statement 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equities, FASB Statement 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits, FASB Interpretation 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, and FASB Interpretation 46, Consolidation of Variable Interest Entities. Adoption of Statements No. 149 and 150 did not materially affect the Company's operating results or financial condition.

Statement 132 (revised 2003) requires additional disclosures about the assets, obligations, cash flows of defined benefit pension and postretirement plans, as well as the expense recorded for such plans.

Interpretation 45 requires recognizing the fair value of guarantees made and information about maximum potential payments that might be required, as well as the collateral or other recourse obtainable. Interpretation 45 covers guarantees such as standby letters of credit, performance guarantees, and direct or indirect guarantees of the indebtedness of others, but not guarantees of funding.

Interpretation 46, as revised in December 2003, changes the accounting model for consolidation from one based on consideration of control through voting interests. Whether to consolidate an entity will now also consider whether that entity has sufficient equity at risk to enable it to operate without additional financial support, whether the equity owners in that entity lack the obligation to absorb expected losses or the right to receive residual returns of the entity, or whether voting rights in the entity are not proportional to the equity interest and substantially all the entity's activities are conducted for an investor with few voting rights. As further discussed in Note 11, trust entities that had previously been consolidated with the Company are now reported separately.

Newly Issued But Not Yet Effective Accounting Standards:

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

Reclassifications:

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

NOTE 2 - SECURITIES

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

| | Fair Value | Gross Unrealized Gain | Gross Unrealized Losses |
|----------------------------------|---------------|-----------------------------|-------------------------------|
| ----- (in thousands) ----- | | | |
| 2003 | | | |
| ----- | | | |
| U.S. Government agencies | \$ 17,280 | \$ 51 | \$ (5) |
| Mortgage-backed securities | 211,142 | 885 | (2,814) |
| State and municipal securities | 52,945 | 2,004 | (197) |
| | ----- | ----- | ----- |
| Total | \$ 281,367 | \$ 2,940 | \$ (3,016) |
| | ===== | ===== | ===== |
| 2002 | | | |
| ----- | | | |
| U.S. Treasury securities | \$ 5,338 | \$ 195 | \$ 0 |
| U.S. Government agencies | 11,946 | 575 | 0 |
| Mortgage-backed securities | 222,036 | 5,600 | (183) |
| State and municipal securities | 34,785 | 1,275 | (24) |
| | ----- | ----- | ----- |
| Total | \$ 274,105 | \$ 7,645 | \$ (207) |
| | ===== | ===== | ===== |

Information regarding the fair value of available for sale debt securities by maturity as of December 31, 2003 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without prepayment penalty.

| | Fair Value |
|--|---------------|
| ----- (in thousands) ----- | |
| Due in one year or less | \$ 101 |
| Due after one year through five years | 12,664 |
| Due after five years through ten years | 9,403 |
| Due after ten years | 48,057 |
| | ----- |
| Mortgage-backed securities | 70,225 |
| | 211,142 |
| | ----- |
| Total debt securities | \$ 281,367 |
| | ===== |

Security proceeds, gross gains and gross losses for 2003, 2002 and 2001 were as follows:

| | 2003 | 2002 | 2001 |
|--|-----------|-----------|-----------|
| ----- (in thousands) ----- | | | |
| Sales and calls of securities available for sale | | | |
| Proceeds | \$ 30,154 | \$ 10,467 | \$ 20,805 |
| Gross gains | 508 | 77 | 310 |
| Gross losses | 8 | 22 | 190 |

NOTE 2 - SECURITIES (continued)

Securities with carrying values of \$197.8 million and \$206.0 million were pledged as of December 31, 2003 and 2002, as collateral for deposits of public funds, securities sold under agreements to repurchase, borrowings from the FHLB and for other purposes as permitted or required by law. At year-end 2003 and 2002, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

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

| | Less than 12 months | | 12 months or more | | Total | |
|--------------------------------|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in thousands) | | | | | |
| U.S. Government agencies | \$ 3,016 | \$ 5 | \$ 0 | \$ 0 | \$ 3,016 | \$ 5 |
| Mortgage-backed securities | 126,347 | 2,215 | 20,637 | 599 | 146,984 | 2,814 |
| State and municipal securities | 10,865 | 183 | 411 | 14 | 11,276 | 197 |
| Total temporarily impaired | \$ 140,228 | \$ 2,403 | \$ 21,048 | \$ 613 | \$ 161,276 | \$ 3,016 |

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

NOTE 3 - LOANS

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

| | 2003 | 2002 |
|--------------------------------------|----------------|------------|
| | (in thousands) | |
| Commercial and industrial loans | \$ 593,194 | \$ 556,800 |
| Agri-business and agricultural loans | 82,262 | 68,137 |
| Real estate mortgage loans | 40,118 | 44,644 |
| Real estate construction loans | 3,932 | 2,540 |
| Installment loans and credit cards | 151,376 | 150,555 |
| Total loans | \$ 870,882 | \$ 822,676 |

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

The following is an analysis of the allowance for loan losses for 2003, 2002 and 2001:

| | 2003 | 2002 | 2001 |
|---|----------------|----------|----------|
| | (in thousands) | | |
| Balance, January 1, | \$ 9,533 | \$ 7,946 | \$ 7,124 |
| Provision for loan losses | 2,254 | 3,056 | 2,225 |
| Loans charged-off | (1,774) | (1,875) | (1,540) |
| Recoveries | 221 | 406 | 137 |
| Net loans charged-off | (1,553) | (1,469) | (1,403) |
| Balance December 31 | \$ 10,234 | \$ 9,533 | \$ 7,946 |
| Nonaccrual loans | \$ 553 | \$ 4,216 | \$ 2,234 |
| Interest not recorded on nonaccrual loans | 183 | 208 | 142 |
| Loans renegotiated as troubled debt restructuring | 0 | 0 | 0 |
| Interest income recognized on troubled debt restructuring | 0 | 0 | 70 |
| Loans past due 90 days and still accruing | 3,191 | 3,387 | 264 |

Impaired loans were as follows:

| | 2003 | 2002 |
|--|----------------|----------|
| | (in thousands) | |
| Year-end loans with no allocated allowance for loan losses | \$ 0 | \$ 0 |
| Year-end loans with allocated allowance for loan losses | 3,039 | 7,298 |
| | \$ 3,039 | 7,298 |
| Amount of the allowance for loan losses allocated | \$ 456 | \$ 1,298 |

| | 2003 | 2002 | 2001 |
|--|----------------|-----------|----------|
| | (in thousands) | | |
| Average of impaired loans during the year | \$ 6,320 | \$ 10,476 | \$ 2,136 |
| Interest income recognized during impairment | 226 | 562 | 340 |
| Cash-basis interest income recognized | 225 | 555 | 42 |

The Company is not committed to lend additional funds to debtors whose loans have been modified. The 2003 and 2002 impaired loan totals included \$127,000 and \$4.1 million which were also included in the total for nonaccrual loans. Total impaired loans decreased by \$4.3 million to \$3.0 million at December 31, 2003 from \$7.3 million at December 31, 2002. The decreases in nonperforming loans and impaired loans resulted from payments on six commercial loans, including one commercial loan of \$1.7 million. The loans delinquent 90 days or more total includes one commercial credit for \$2.9 million and \$3.2 million in 2003 and 2002. The renewal of this loan has been complicated as more than one bank is involved, and it remains past maturity. The loan first became delinquent in 2002 and the maturity has not been extended. While this loan is current as to principal and interest, there can be no assurance that it will remain current given the circumstances involved.

NOTE 5 - SECONDARY MORTGAGE MARKET ACTIVITIES

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were \$231.8 million and \$168.7 million at December 31, 2003 and 2002. Net loan servicing income/(loss) was (\$166,000), (\$48,000) and \$82,000 for 2003, 2002 and 2001. Information on loan servicing rights follows:

| Loan servicing rights: | 2003 | 2002 | 2001 |
|--------------------------------|----------------------------------|-----------------|-----------------|
| | ----- (in thousands) ----- | | |
| Beginning of year | \$ 1,677 | \$ 1,507 | \$ 1,419 |
| Originations | 1,094 | 622 | 395 |
| Amortization | (671) | (452) | (307) |
| | ----- | | |
| End of year | <u>\$ 2,100</u> | <u>\$ 1,677</u> | <u>\$ 1,507</u> |
| | ===== | | |
| Valuation allowance: | 2003 | 2002 | 2001 |
| | ----- (in thousands) ----- | | |
| Beginning of year | \$ 722 | \$ 388 | \$ 0 |
| Additions expensed | 421 | 913 | 705 |
| Reductions credited to expense | (645) | (579) | (317) |
| | ----- | | |
| End of year | <u>\$ 498</u> | <u>\$ 722</u> | <u>\$ 388</u> |
| | ===== | | |

NOTE 6 - LAND, PREMISES AND EQUIPMENT, NET

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

| | 2003 | 2002 |
|-----------------------------------|----------------------------------|------------------|
| | ----- (in thousands) ----- | |
| Land | \$ 8,456 | \$ 8,053 |
| Premises | 21,004 | 20,357 |
| Equipment | 14,830 | 12,622 |
| | ----- | |
| Total cost | 44,290 | 41,032 |
| Less accumulated depreciation | 18,133 | 16,264 |
| | ----- | |
| Land, premises and equipment, net | <u>\$ 26,157</u> | <u>\$ 24,768</u> |
| | ===== | |

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The change in the carrying amount of goodwill during the year was as follows:

| | 2003 | 2002 |
|--|----------------------------------|-----------------|
| | ----- (in thousands) ----- | |
| Beginning of year | \$ 4,970 | \$ 0 |
| Reclassified from unidentifiable intangible assets | 0 | 4,970 |
| | ----- | |
| End of year | <u>\$ 4,970</u> | <u>\$ 4,970</u> |
| | ===== | |

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Goodwill is no longer amortized starting in 2002. The effect of not amortizing goodwill is summarized as follows:

| | 2003 | 2002 | 2001 |
|---|------------------|------------------|------------------|
| | (in thousands) | | |
| Reported net income | \$ 13,865 | \$ 12,366 | \$ 10,113 |
| Add back: goodwill amortization, net of tax | 0 | 0 | 367 |
| Adjusted net income | <u>\$ 13,865</u> | <u>\$ 12,366</u> | <u>\$ 10,480</u> |
| Basic earnings per share: | | | |
| Reported net income | \$ 2.38 | \$ 2.13 | \$ 1.74 |
| Goodwill amortization, net of tax | .00 | .00 | .06 |
| Adjusted net income | <u>\$ 2.38</u> | <u>\$ 2.13</u> | <u>\$ 1.80</u> |
| Diluted earnings per share: | | | |
| Reported net income | \$ 2.31 | \$ 2.08 | \$ 1.73 |
| Goodwill amortization, net of tax | .00 | .00 | .06 |
| Adjusted net income | <u>\$ 2.31</u> | <u>\$ 2.08</u> | <u>\$ 1.79</u> |

Acquired Intangible Assets

| | As of December 31, 2003 | | As of December 31, 2002 | |
|-----------------------------|-------------------------|--------------------------|-------------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets | | | | |
| Core deposit | \$ 2,032 | \$ 1,139 | \$ 2,032 | \$ 990 |
| Trust deposit relationships | 572 | 5 | 0 | 0 |
| Total | <u>\$ 2,604</u> | <u>\$ 1,144</u> | <u>\$ 2,032</u> | <u>\$ 990</u> |

Aggregate amortization expense was \$154,000, \$149,000 and \$193,000 for 2003, 2002 and 2001.

Estimated amortization expense for each of the next five years:

| | Amount |
|------|----------------|
| | (in thousands) |
| | \$ 214 |
| 2005 | 212 |
| 2006 | 209 |
| 2007 | 206 |
| 2008 | 206 |

NOTE 8 - DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of \$100,000, was approximately \$106.4 million and \$225.0 million at December 31, 2003 and 2002.

At December 31, 2003, the scheduled maturities of time deposits were as follows:

| | Amount |
|---------------------|----------------|
| | ----- |
| | (in thousands) |
| Maturing in 2004 | \$ 175,302 |
| Maturing in 2005 | 71,067 |
| Maturing in 2006 | 15,286 |
| Maturing in 2007 | 28,526 |
| Maturing in 2008 | 9,372 |
| Thereafter | 950 |
| | ----- |
| Total time deposits | \$ 300,503 |
| | ===== |

NOTE 9 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase ("repo accounts") represent collateralized borrowings with customers located primarily within the Company's service area. Repo accounts are not covered by federal deposit insurance and are secured by securities owned. Information on these liabilities and the related collateral for 2003 and 2002 is as follows:

| | 2003 | 2002 |
|--|----------------|------------|
| | ----- | ----- |
| | (in thousands) | |
| Average daily balance during the year | \$ 97,808 | \$ 116,214 |
| Average interest rate during the year | 0.83% | 1.49% |
| Maximum month-end balance during the year | \$ 108,270 | \$ 139,857 |
| Securities underlying the agreements at year-end | | |
| Fair value | \$ 115,708 | \$ 161,063 |

| Term | Repurchase Liability | Weighted Average Interest Rate | Collateral at Fair Values | |
|---------------|-------------------------|---|-----------------------------|-----------------------------------|
| | | | U.S. Treasury Securities | Mortgage- backed Securities |
| ----- | ----- | ----- | ----- | ----- |
| | (in thousands) | | (in thousands) | |
| On demand | \$ 102,197 | 0.79% | \$ 0 | \$ 114,235 |
| 1 to 30 days | 0 | 0.00% | 0 | 0 |
| 31 to 90 days | 0 | 0.00% | 0 | 0 |
| Over 90 days | 404 | 0.75% | 0 | 1,473 |
| | ----- | ----- | ----- | ----- |
| Total | \$ 102,601 | 0.79% | \$ 0 | \$ 115,708 |
| | ===== | ===== | ===== | ===== |

The Company retains the right to substitute similar type securities, and has the right to withdraw all collateral applicable to repo accounts whenever the collateral values are in excess of the related repurchase liabilities. At December 31, 2003, there were no material amounts of securities at risk with any one customer. The Company maintains control of these securities through the use of third-party safekeeping arrangements.

NOTE 10 - BORROWINGS

Long-term borrowings at December 31 consisted of:

| | 2003 | 2002 |
|--|----------------------------------|-----------|
| | ----- (in thousands) ----- | |
| Federal Home Loan Bank of Indianapolis Notes, 6.15%, Due June 24, 2003 | \$ 0 | \$ 1,300 |
| Federal Home Loan Bank of Indianapolis Notes, 3.76%, Due December 29, 2003 | 0 | 10,000 |
| Federal Home Loan Bank of Indianapolis Notes, 3.96%, Due April 9, 2004 | 20,000 | 20,000 |
| Federal Home Loan Bank of Indianapolis Notes, 2.36%, Due December 29, 2005 | 10,000 | 0 |
| Federal Home Loan Bank of Indianapolis Notes, 6.15%, Due January 15, 2018 | 47 | 48 |
| | ----- | ----- |
| Total | \$ 30,047 | \$ 31,348 |
| | ===== | ===== |

All notes require monthly interest payments and were secured by residential real estate loans and securities with a carrying value of \$86.6 million at December 31, 2003. At December 31, 2003, the Company owned \$4.3 million of Federal Home Loan Bank (FHLB) stock, which also secures debts to the FHLB.

In addition to the long-term borrowings, the Company had \$55 million and \$26 million in fixed rate notes with the FHLB at December 31, 2003 and 2002. For the year-end 2003, these notes mature at various times between January 30, 2004 and July 20, 2004. These notes are classified as short-term borrowings in the financial statements. The Company is authorized to borrow up to \$100 million from the FHLB.

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

| | (in thousands) |
|------|----------------|
| | ----- |
| 2004 | \$ 20,000 |
| 2005 | 10,000 |
| 2006 | 0 |
| 2007 | 0 |
| 2008 | 0 |

NOTE 11 - SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES

In September 1997, Lakeland Capital Trust completed a public offering of two million shares of cumulative trust preferred securities with a liquidation preference of \$10 per security. The proceeds of the offering were loaned to the Company in exchange for subordinated debentures with terms similar to the preferred securities. On October 1, 2003, the subordinated debentures were redeemed and the preferred securities called. Loss on extinguishment of debt of \$804,000 was recorded in connection with the call of the preferred securities.

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

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

NOTE 12 - EMPLOYEE BENEFIT PLANS

In April, 2000, the Lakeland Financial Corporation Pension Plan was frozen. As a result of this curtailment, a gain was recognized in the income statement for the second quarter of 2000. The Company also maintains a Supplemental Executive Retirement Plan (SERP) for select officers that was established as a funded, non-qualified deferred compensation plan.

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

| | Pension Benefits | | SERP Benefits | |
|--|------------------|----------|----------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands) | | (in thousands) | |
| Change in benefit obligation: | | | | |
| Beginning benefit obligation | \$ 2,279 | \$ 2,135 | \$ 1,412 | \$ 1,354 |
| Interest cost | 155 | 152 | 90 | 97 |
| Actuarial loss | 306 | 33 | 0 | 12 |
| Change in discount rate | 269 | 213 | 94 | 83 |
| Benefits paid | (367) | (254) | (139) | (134) |
| Ending benefit obligation | \$ 2,642 | \$ 2,279 | \$ 1,457 | \$ 1,412 |
| Change in plan assets (primarily money market funds and equity and fixed income investments), at fair value: | | | | |
| Beginning plan assets | 1,501 | 1,920 | 934 | 1,069 |
| Actual return (loss) | 131 | (165) | 83 | (77) |
| Employer contribution | 0 | 0 | 130 | 76 |
| Benefits paid | (367) | (254) | (139) | (134) |
| Ending plan assets | 1,265 | 1,501 | 1,008 | 934 |
| Funded status | (1,377) | (778) | (449) | (478) |
| Unrecognized net actuarial (gain) loss | 1,876 | 1,319 | 814 | 738 |
| Prepaid benefit cost | \$ 499 | \$ 541 | \$ 365 | \$ 260 |
| Amounts recognized in the consolidated balance sheets consist of: | | | | |
| | Pension Benefits | | SERP Benefits | |
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands) | | (in thousands) | |
| Prepaid benefit cost | \$ 499 | \$ 541 | \$ 365 | \$ 260 |
| Accumulated other comprehensive income | (1,876) | (1,319) | 0 | 0 |
| Net amount recognized | \$ (1,377) | \$ (778) | \$ 365 | \$ 260 |
| | | | | |
| | December 31, | | December 31, | |
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands) | | (in thousands) | |
| Projected benefit obligation | \$ 2,642 | \$ 2,279 | \$ 1,457 | \$ 1,412 |
| Accumulated benefit obligation | 2,642 | 2,279 | 1,457 | 1,412 |
| Fair value of plan assets | 1,265 | 1,501 | 1,008 | 934 |

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

Net pension expense includes the following:

| | Pension Benefits | | | SERP Benefits | | |
|--------------------------------------|------------------|---------|---------|----------------|-------|---------|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| | (in thousands) | | | (in thousands) | | |
| Service cost | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Interest cost | 155 | 152 | 164 | 91 | 97 | 101 |
| Expected return on plan assets | (141) | (184) | (249) | (95) | (104) | (120) |
| Recognized net actuarial (gain) loss | 28 | 7 | 0 | 29 | 12 | 6 |
| Net pension expense (benefit) | \$ 42 | \$ (25) | \$ (85) | \$ 25 | \$ 5 | \$ (13) |

Additional Information:

| | Pension Benefits | | | SERP Benefits | | |
|--|------------------|--------|------|----------------|------|------|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| | (in thousands) | | | (in thousands) | | |
| Increase in minimum liability included in other comprehensive income | \$ 557 | \$ 588 | 731 | \$ 0 | \$ 0 | \$ 0 |

The following assumptions were used in calculating the net benefit obligation:

| | | | | | | |
|---|-------|-------|-------|-------|-------|-------|
| Weighted average discount rate | 6.75% | 7.50% | 8.00% | 6.75% | 7.50% | 8.00% |
| Rate of increase in future compensation | N/A | N/A | N/A | N/A | N/A | N/A |

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

| | | | | | | |
|---|-------|-------|--------|-------|-------|--------|
| Weighted average discount rate | 6.00% | 6.75% | 7.50% | 6.00% | 6.75% | 7.50% |
| Rate of increase in future compensation | N/A | N/A | N/A | N/A | N/A | N/A |
| Expected long-term rate of return | 8.25% | 8.50% | 10.00% | 8.25% | 8.50% | 10.00% |

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

The asset allocations at the measurement dates of September 30, 2003, and 2002, by asset category are as follows:

| Asset Category | Pension Plan Assets at September 30, | | SERP Plan Assets at September 30, | |
|-------------------|--------------------------------------|------|-----------------------------------|------|
| | 2003 | 2002 | 2003 | 2002 |
| Equity securities | 74% | 63% | 59% | 52% |
| Debt Securities | 23% | 36% | 36% | 42% |
| Other | 3% | 1% | 5% | 6% |
| Total | 100% | 100% | 100% | 100% |

As of the measurement date, the investment objective was to realize a rate of return on the plan assets matching that of the actuarial assumption. The allowable asset allocation parameters were as follows: Equities: 50%-75% and Fixed Income: 25%-50%. The equity component is managed by an outside portfolio manager and consists of a diversified portfolio of common stocks. The fixed income component is managed internally by the Company's Trust Department and consists of Treasury securities and corporate bonds. The Company has an internal Pension Administration Committee consisting of the Human Resources Director, Chief Financial Officer, Manager of Retirement Plan Services, Senior Personal Trust Officer and Senior Trust Investment Officer. During 2004, the Committee will meet to review investment performance and to prepare a formal investment policy.

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

Contributions

The Company expects to contribute \$299,000 to its pension plan and \$119,000 to its SERP plan in 2004.

Other Employee Benefit Plans

The Company maintains a 401(k) profit sharing plan for all employees meeting age and service requirements. The Company contributions are based upon the rate of return on stockholders' equity as of January 1st of each year. The expense recognized was \$732,000, \$620,000 and \$551,000 in 2003, 2002 and 2001.

Under employment agreements with certain executives, certain events leading to separation from the Company could result in cash payments totaling \$2.2 million as of December 31, 2003. On December 31, 2003, no amounts were accrued on these contingent obligations.

NOTE 13 - OTHER INCOME AND EXPENSE

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

| | 2003 | 2002 | 2001 |
|----------------------------------|-----------------|-----------------|-----------------|
| | (in thousands) | | |
| Loan, insurance and service fees | \$ 2,296 | \$ 1,704 | \$ 1,692 |
| Merchant card fee income | 1,747 | 1,594 | 1,305 |
| Miscellaneous | 1,636 | 428 | 478 |
| Total other income | \$ 5,679 | \$ 3,726 | \$ 3,475 |

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

| | 2003 | 2002 | 2001 |
|---|------------------|------------------|------------------|
| | (in thousands) | | |
| Data processing fees and supplies | \$ 2,433 | \$ 2,226 | \$ 2,212 |
| Corporate and business development | 1,003 | 985 | 894 |
| Advertising | 706 | 681 | 669 |
| Office supplies | 591 | 513 | 557 |
| Telephone and postage | 1,137 | 1,312 | 1,265 |
| Regulatory fees and FDIC insurance | 242 | 236 | 237 |
| Professional fees | 1,275 | 995 | 994 |
| Credit card interchange | 955 | 900 | 757 |
| Amortization of goodwill | 0 | 0 | 608 |
| Amortization of other intangible assets | 154 | 149 | 190 |
| Miscellaneous | 3,568 | 3,543 | 3,269 |
| Total other expense | \$ 12,064 | \$ 11,540 | \$ 11,652 |

NOTE 14 - INCOME TAXES

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

| | 2003 | 2002 | 2001 |
|------------------------------------|-----------------|-----------------|-----------------|
| | (in thousands) | | |
| Current federal | \$ 5,121 | \$ 6,936 | \$ 5,105 |
| Deferred federal | 816 | (1,134) | (630) |
| Current state | 773 | 909 | 445 |
| Deferred state | 118 | (191) | (176) |
| Total income tax expense | <u>\$ 6,828</u> | <u>\$ 6,520</u> | <u>\$ 4,744</u> |

Income tax expense included \$203,000, \$20,000 and \$41,000 applicable to security transactions for 2003, 2002 and 2001. The differences between financial statement tax expense and amounts computed by applying the statutory federal income tax rate of 35%, 35% and 34% for 2003, 2002, and 2001 to income before income taxes were as follows:

| | 2003 | 2002 | 2001 |
|--|-----------------|-----------------|-----------------|
| | (in thousands) | | |
| Income taxes at statutory federal rate | \$ 7,243 | \$ 6,610 | \$ 5,051 |
| Increase (decrease) in taxes resulting from: | | | |
| Tax exempt income | (813) | (621) | (643) |
| Nondeductible expense | 176 | 136 | 155 |
| State income tax, net of federal tax effect | 579 | 467 | 178 |
| Net operating loss, Gateway | (30) | (30) | (29) |
| Tax credits | (73) | (48) | (48) |
| Bank owned life insurance | (242) | (24) | 0 |
| Other | (12) | 30 | 80 |
| Total income tax expense | <u>\$ 6,828</u> | <u>\$ 6,520</u> | <u>\$ 4,744</u> |

NOTE 14 - INCOME TAXES (continued)

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

| | 2003 | | 2002 | |
|---|----------------|--------|----------|--------|
| | Federal | State | Federal | State |
| | (in thousands) | | | |
| Deferred tax assets | | | | |
| Bad debts | \$ 3,582 | \$ 801 | \$ 3,406 | \$ 768 |
| Pension and deferred compensation liability | 373 | 88 | 489 | 110 |
| Intangible assets | 0 | 0 | 28 | 6 |
| Net operating loss carryforward | 208 | 0 | 237 | 0 |
| Other | 107 | 21 | 166 | 45 |
| | ----- | ----- | ----- | ----- |
| | 4,270 | 910 | 4,326 | 929 |
| Deferred tax liabilities | | | | |
| Accretion | 28 | 6 | 21 | 5 |
| Depreciation | 660 | 77 | 173 | 47 |
| Loan servicing rights | 561 | 125 | 334 | 75 |
| State taxes | 215 | 0 | 257 | 0 |
| Leases | 186 | 42 | 242 | 55 |
| Deferred loan fees | 12 | 3 | 56 | 13 |
| Intangible assets | 181 | 41 | 0 | 0 |
| | ----- | ----- | ----- | ----- |
| | 1,843 | 294 | 1,083 | 195 |
| Valuation allowance | 0 | 0 | 0 | 0 |
| | ----- | ----- | ----- | ----- |
| Net deferred tax asset | 2,427 | \$ 616 | \$ 3,243 | \$ 734 |
| | ===== | ===== | ===== | ===== |

In addition to the net deferred tax assets included above, the deferred income tax asset (liability) allocated to the unrealized net loss on securities available for sale included in equity was \$91,000 and \$(2.7) million for 2003 and 2002. The deferred income tax asset allocated to the minimum pension liability included in equity was \$761,000 and \$535,000 for 2003 and 2002.

NOTE 15 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates as of December 31, 2003 and 2002 were as follows:

| | 2003 | 2002 |
|--------------------------------------|----------------|-----------|
| | (in thousands) | |
| Beginning balance | \$ 39,931 | \$ 39,075 |
| New loans and advances | 68,044 | 58,186 |
| Effect of changes in related parties | 5,135 | 32 |
| Repayments | (68,705) | (57,362) |
| | ----- | ----- |
| Ending balance | \$ 44,405 | \$ 39,931 |
| | ===== | ===== |

Deposits from principal officers, directors, and their affiliates at year-end 2003 and 2002 were \$2.0 million and \$5.0 million. In addition, the amount owed directors for fees under the deferred directors' plan as of December 31, 2003 and 2002 was \$994,000 and \$1.3 million. The related expense for the deferred directors' plan as of December 31, 2003, 2002 and 2001 was \$235,000, \$487,000 and \$399,000.

NOTE 16 - STOCK OPTIONS

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

| | 2003 | | 2002 | | 2001 | |
|--|-------------------------|----------------|-------------------------|----------------|-------------------------|----------------|
| | Weighted-Average Shares | Exercise Price | Weighted-Average Shares | Exercise Price | Weighted-Average Shares | Exercise Price |
| Outstanding at beginning of the year | 495,545 | \$ 17.26 | 550,345 | \$ 17.27 | 454,770 | \$ 18.79 |
| Granted | 64,790 | 34.21 | 2,000 | 23.88 | 147,375 | 13.81 |
| Exercised | 20,760 | 23.33 | 0 | 0.00 | 0 | 0.00 |
| Forfeited | 18,100 | 17.51 | 56,800 | 17.53 | 51,800 | 20.80 |
| Outstanding at end of the year | 521,475 | \$ 19.12 | 495,545 | \$ 17.26 | 550,345 | \$ 17.27 |
| Options exercisable at end of the year | 107,575 | \$ 23.15 | 3,600 | \$ 18.35 | 42,000 | \$ 17.55 |
| Weighted-average fair value of options granted during the year | | \$ 11.06 | | \$ 10.99 | | \$ 6.01 |

Options outstanding at year-end 2003 were as follows:

| Range of exercise prices | Number | Outstanding Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Exercisable | |
|-----------------------------------|---------|---|---------------------------------|-------------|---------------------------------|
| | | | | Number | Weighted-Average Exercise Price |
| \$11.20-\$14.00 | 198,225 | 6.6 | \$ 13.57 | 7,000 | \$ 13.55 |
| \$14.01-\$16.80 | 92,800 | 6.2 | 15.10 | 2,800 | 15.53 |
| \$16.81-\$19.60 | 73,535 | 4.7 | 19.31 | 7,150 | 19.44 |
| \$19.61-\$22.40 | 1,000 | 8.3 | 20.76 | 0 | 0.00 |
| \$22.41-\$25.20 | 83,700 | 4.1 | 24.04 | 82,700 | 24.04 |
| \$25.21-\$28.00 | 8,425 | 4.0 | 27.82 | 7,425 | 27.94 |
| \$28.01-\$35.00 | 63,790 | 9.9 | 34.37 | 500 | 34.37 |
| Outstanding at year-end | 521,475 | 6.2 | \$ 19.12 | 107,575 | \$ 23.15 |

NOTE 17 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

The Company and Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2003 and 2002, that the Company and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2003, the most recent notification from the federal regulators categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company's or Bank's category.

| | Actual | | Minimum Required For Capital Adequacy Purposes | | Minimum Required to Be Well Capitalized Under Prompt Corrective Action Regulations | |
|--|------------|--------|--|-------|---|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| (in thousands) | | | | | | |
| As of December 31, 2003: | | | | | | |
| Total Capital (to Risk Weighted Assets) | | | | | | |
| Consolidated | \$ 124,941 | 12.83% | \$ 77,919 | 8.00% | \$ 97,399 | 10.00% |
| Bank | \$ 122,909 | 12.65% | \$ 77,709 | 8.00% | \$ 97,136 | 10.00% |
| Tier I Capital (to Risk Weighted Assets) | | | | | | |
| Consolidated | \$ 114,707 | 11.78% | \$ 38,959 | 4.00% | \$ 58,439 | 6.00% |
| Bank | \$ 112,675 | 11.60% | \$ 38,855 | 4.00% | \$ 58,282 | 6.00% |
| Tier I Capital (to Average Assets) | | | | | | |
| Consolidated | \$ 114,707 | 9.15% | \$ 50,131 | 4.00% | \$ 62,664 | 5.00% |
| Bank | \$ 112,675 | 9.00% | \$ 50,064 | 4.00% | \$ 62,580 | 5.00% |
| As of December 31, 2002: | | | | | | |
| Total Capital (to Risk Weighted Assets) | | | | | | |
| Consolidated | \$ 103,368 | 11.08% | \$ 74,647 | 8.00% | \$ 93,309 | 10.00% |
| Bank | \$ 101,510 | 10.91% | \$ 74,433 | 8.00% | \$ 93,041 | 10.00% |
| Tier I Capital (to Risk Weighted Assets) | | | | | | |
| Consolidated | \$ 93,836 | 10.06% | \$ 37,323 | 4.00% | \$ 55,985 | 6.00% |
| Bank | \$ 91,977 | 9.89% | \$ 37,216 | 4.00% | \$ 55,825 | 6.00% |
| Tier I Capital (to Average Assets) | | | | | | |
| Consolidated | \$ 93,836 | 7.89% | \$ 47,562 | 4.00% | \$ 59,453 | 5.00% |
| Bank | \$ 91,977 | 7.75% | \$ 47,463 | 4.00% | \$ 59,329 | 5.00% |

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

Indiana law prohibits the Bank from paying dividends in an amount greater than its undivided profits. The Bank is required to obtain the approval of the Department of Financial Institutions for the payment of any dividend if the total amount of all dividends declared by the Bank during the calendar year, including the proposed dividend, would exceed the sum of the retained net income for the year to date combined with its retained net income for the previous two years. Indiana law defines "retained net income" to mean the net income of a specified period, calculated under the consolidated report of income instructions, less the total amount of all dividends declared for the specified period. As of December 31, 2003, approximately \$19.8 million was available to be paid as dividends to the Company by the Bank.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2003. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by the Bank if the FDIC determines such payment would constitute an unsafe or unsound practice.

NOTE 18 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table contains the estimated fair values and the related carrying values of the Company's financial instruments at December 31, 2003 and 2002. Items, which are not financial instruments, are not included.

| | 2003 | | 2002 | |
|--|----------------|----------------------|----------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| | (in thousands) | | | |
| Financial Assets: | | | | |
| Cash and cash equivalents | \$ 57,441 | \$ 57,441 | \$ 87,149 | \$ 87,149 |
| Real estate mortgages held for sale | 3,431 | 3,431 | 10,395 | 10,395 |
| Securities available for sale | 281,367 | 281,367 | 274,105 | 274,105 |
| Loans, net | 860,648 | 864,493 | 813,143 | 817,082 |
| Federal Home Loan Bank stock | 4,252 | 4,252 | 3,568 | 3,568 |
| Accrued interest receivable | 4,997 | 4,997 | 4,985 | 4,985 |
| Financial Liabilities: | | | | |
| Certificates of deposit | (300,503) | (305,003) | (436,455) | (442,948) |
| All other deposits | (625,888) | (625,888) | (476,870) | (476,870) |
| Securities sold under agreements to repurchase | (102,601) | (102,601) | (124,968) | (124,968) |
| Other short-term borrowings | (82,160) | (82,184) | (60,000) | (60,000) |
| Long-term borrowings | (30,047) | (30,304) | (31,348) | (32,248) |
| Subordinated debentures | (30,928) | (30,974) | (20,619) | (21,774) |
| Accrued interest payable | (2,376) | (2,376) | (3,197) | (3,197) |

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2003 and 2002. The estimated fair value for cash, cash equivalents, accrued interest and Federal Home Loan Bank stock is considered to approximate cost. Real estate mortgages held for sale are based upon the actual contracted price for those loans sold but not yet delivered, or the current Federal Home Loan Mortgage Corporation price for normal delivery of mortgages with similar coupons and maturities at year-end. The estimated fair value of loans is based on estimates of the rate the Company would charge for similar loans at December 31, 2003 and 2002, applied for the time period until estimated repayment. The estimated fair value for demand and savings deposits is based on their carrying value. The estimated fair value for certificates of deposit and borrowings is based on estimates of the rate the Company would pay on such deposits or borrowings at December 31, 2003 and 2002, applied for the time period until maturity. The estimated fair value of variable rate short-term borrowed funds is considered to approximate carrying value. The estimated fair value of other financial instruments and off-balance sheet loan commitments approximate cost and are not considered significant to this presentation.

NOTE 18 - FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that, were the Company to have disposed of such items at December 31, 2003 and 2002, 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, 2003 and 2002 should not necessarily be considered to apply at subsequent dates.

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

During the normal course of business, the Company becomes a party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These financial instruments include commitments to make loans and open-ended revolving lines of credit. Amounts as of December 31, 2003 and 2002, were as follows:

| | 2003 | | 2002 | |
|---|------------------|-------------------|------------------|-------------------|
| | Fixed Rate | Variable Rate | Fixed Rate | Variable Rate |
| | (in thousands) | | | |
| Commercial loan lines of credit | \$ 4,308 | \$ 222,755 | \$ 12,643 | \$ 208,383 |
| Commercial loan letters of credit | 0 | 11,424 | 0 | 8,365 |
| Real estate mortgage loans | 5,405 | 1,392 | 18,631 | 479 |
| Real estate construction mortgage loans | 535 | 2,605 | 0 | 2,117 |
| Credit card open-ended revolving lines | 8,560 | 1,582 | 7,477 | 388 |
| Home equity mortgage open-ended revolving lines | 0 | 68,030 | 0 | 54,069 |
| Consumer loan open-ended revolving lines | 0 | 3,901 | 0 | 3,649 |
| Total | <u>\$ 18,808</u> | <u>\$ 311,689</u> | <u>\$ 38,751</u> | <u>\$ 277,450</u> |

At December 31, 2003 and 2002, the range of interest rates for commercial loan commitments with a fixed rate was 2.00% to 10.75% and 2.00% to 11.00%. The range of interest rates for commercial loan commitments with variable rates was 2.67% to 9.00% and 3.00% to 10.25% at December 31, 2003 and 2002. The index on variable rate commercial loan commitments is principally the Company's base rate, which is the national prime rate. The range of interest rates for mortgage loan commitments with a fixed rate was 4.88% to 7.25% at December 31, 2003 and 2002. The range of interest rates for mortgage loan commitments with a variable rate was 5.00% to 7.00% and 6.00% to 6.50% at December 31, 2003 and 2002. At December 31, 2003 and 2002, the range of interest rates for fixed rate credit card commitments was 14.95% to 17.95%. At December 31, 2003 and 2002 the rate on variable credit card commitments was 7.00% and 7.25%. The range of interest rates for open-ended revolving line commitments with a variable rate was 2.99% to 15.00% and 3.99% to 15.00% at December 31, 2003 and 2002.

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

The Company's exposure to credit losses in the event of nonperformance is represented by the contractual amount of the commitments. Management does not expect any significant losses as a result of these commitments.

NOTE 20 - PARENT COMPANY STATEMENTS

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

CONDENSED BALANCE SHEETS

| | December 31, | |
|---|-------------------|-------------------|
| | 2003 | 2002 |
| | (in thousands) | |
| ASSETS | | |
| Deposits with Lake City Bank | \$ 861 | \$ 1,443 |
| Investments in banking subsidiary | 117,990 | 102,091 |
| Investments in Lakeland Statutory Trust II | 928 | 619 |
| Other assets | 2,394 | 2,677 |
| Total assets | \$ 122,173 | \$ 106,830 |
| LIABILITIES | | |
| Dividends payable and other liabilities | \$ 1,223 | \$ 2,331 |
| Subordinated debt | 30,928 | 20,619 |
| STOCKHOLDERS' EQUITY | | |
| | 90,022 | 83,880 |
| Total liabilities and stockholders' equity | \$ 122,173 | \$ 106,830 |

CONDENSED STATEMENTS OF INCOME

| | Years Ended December 31, | | |
|---|--------------------------|------------------|------------------|
| | 2003 | 2002 | 2001 |
| | (in thousands) | | |
| Dividends from Lake City Bank, Lakeland Statutory Trust II and Lakeland Capital Trust | \$ 3,980 | \$ 5,730 | \$ 5,184 |
| Interest on deposits and repurchase agreements, Lake City Bank | 1 | 4 | 7 |
| Equity in undistributed income of subsidiaries | 11,648 | 8,129 | 6,364 |
| Interest expense on subordinated debt | 1,725 | 1,856 | 1,856 |
| Miscellaneous expense | 1,264 | 620 | 490 |
| INCOME BEFORE INCOME TAXES | 12,640 | 11,387 | 9,209 |
| Income tax benefit | 1,225 | 979 | 904 |
| NET INCOME | \$ 13,865 | \$ 12,366 | \$ 10,113 |

CONDENSED STATEMENTS OF CASH FLOWS

| | Years ended December 31, | | |
|---|--------------------------|-----------------|-----------------|
| | 2003 | 2002 | 2001 |
| | (in thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | \$ 13,865 | \$ 12,366 | \$ 10,113 |
| Adjustments to net cash from operating activities | | | |
| Equity in undistributed income of subsidiaries | (11,648) | (8,129) | (6,364) |
| Other changes | 510 | (101) | 56 |
| Net cash from operating activities | 2,727 | 4,136 | 3,805 |
| Cash flows from investing activities | (9,779) | 0 | 0 |
| Cash flows from financing activities | 6,470 | (4,006) | (3,594) |
| Net increase in cash and cash equivalents | (582) | 130 | 211 |
| Cash and cash equivalents at beginning of the year | 1,443 | 1,313 | 1,102 |
| Cash and cash equivalents at end of the year | \$ 861 | \$ 1,443 | \$ 1,313 |

NOTE 21 - EARNINGS PER SHARE

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

| | 2003 | 2002 | 2001 |
|---|---------------|---------------|---------------|
| | ----- | ----- | ----- |
| Basic earnings per common share | | | |
| Net income | \$ 13,865,000 | \$ 12,366,000 | \$ 10,113,000 |
| Weighted-average common shares outstanding | 5,819,916 | 5,813,984 | 5,813,984 |
| Basic earnings per common share | \$ 2.38 | \$ 2.13 | \$ 1.74 |
| Diluted earnings per common share | | | |
| Net income | \$ 13,865,000 | \$ 12,366,000 | \$ 10,113,000 |
| Weighted-average common shares outstanding for basic earnings per common share | 5,819,916 | 5,813,984 | 5,813,984 |
| Add: Dilutive effect of assumed exercises of stock options | 181,533 | 144,402 | 27,212 |
| Average shares and dilutive potential common shares | 6,001,449 | 5,958,386 | 5,841,196 |
| Diluted earnings per common share | \$ 2.31 | \$ 2.08 | \$ 1.73 |

Stock options for 63,790 and 93,460 shares of common stock were not considered in computing diluted earnings per common share for 2003 and 2002 because they were antidilutive.

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

| 2003 | 4th Quarter | 3rd Quarter | 2nd Quarter | 1st Quarter |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Interest income | \$ 14,513 | \$ 14,833 | \$ 15,537 | \$ 15,453 |
| Interest expense | 4,013 | 4,429 | 4,793 | 4,902 |
| Net interest income | \$ 10,500 | \$ 10,404 | \$ 10,744 | \$ 10,551 |
| Provision for loan losses | 490 | 380 | 717 | 667 |
| Noninterest income | 4,621 | 4,481 | 4,939 | 4,386 |
| Noninterest expense | 10,345 | 9,095 | 9,268 | 8,971 |
| Income tax expense | 1,276 | 1,819 | 1,949 | 1,784 |
| Net income | \$ 3,010 | \$ 3,591 | \$ 3,749 | \$ 3,515 |
| Basic earnings per common share | \$ 0.52 | \$ 0.62 | \$ 0.64 | \$ 0.60 |
| Diluted earnings per common share | \$ 0.49 | \$ 0.60 | \$ 0.63 | \$ 0.59 |
| 2002 | 4th Quarter | 3rd Quarter | 2nd Quarter | 1st Quarter |
| Interest income | 15,773 | \$ 16,216 | \$ 16,281 | \$ 16,065 |
| Interest expense | 5,486 | 5,598 | 5,623 | 5,851 |
| Net interest income | \$ 10,295 | \$ 10,625 | \$ 10,665 | \$ 10,221 |
| Provision for loan losses | 766 | 1,041 | 747 | 502 |
| Noninterest income | 4,281 | 3,649 | 3,574 | 3,359 |
| Noninterest expense | 8,716 | 8,600 | 8,806 | 8,576 |
| Income tax expense | 1,754 | 1,605 | 1,619 | 1,542 |
| Net income | \$ 3,332 | \$ 3,021 | \$ 3,060 | \$ 2,953 |
| Basic earnings per common share | \$ 0.57 | \$ 0.52 | \$ 0.53 | \$ 0.51 |
| Diluted earnings per common share | \$ 0.57 | \$ 0.50 | \$ 0.51 | \$ 0.50 |

Data for the first 3 quarters may not necessarily agree with that issued in the Company's quarterly filings for those quarters. On October 1, 2002, the Company adopted new accounting guidance, which resulted in the reversal of 2002 goodwill amortization. Prior quarters have been restated to reflect this reversal. Below is a reconciliation of the previously reported Net Income and EPS to the restated amounts above.

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

| 2002 | 3rd Quarter | 2nd Quarter | 1st Quarter |
|--|----------------|----------------|----------------|
| Reported net income | \$ 2,953 | \$ 2,993 | \$ 2,885 |
| Net goodwill amortization reversed, net of tax | 68 | 67 | 68 |
| Adjusted net income | \$ 3,021 | \$ 3,060 | \$ 2,953 |
| Reported basic earnings per common share | \$.51 | \$.51 | \$.50 |
| Net goodwill amortization | .01 | .02 | .01 |
| Adjusted basic earnings per common share | \$.52 | \$.53 | \$.51 |
| Reported diluted earnings per common share | \$.49 | \$.50 | \$.49 |
| Net goodwill amortization | .01 | .01 | .01 |
| Adjusted diluted earnings per common share | \$.50 | \$.51 | \$.50 |

NOTE 23 - BRANCH DIVESTITURES

On September 21, 2001, the Company sold its Greentown, Logansport, Peru, Roann and Wabash, Indiana offices. The Company paid \$39.8 million to settle the net liabilities assumed by the buyer and recorded a gain of \$753,000.

NOTE 24 - TRUST ACQUISITION

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

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

REPORT OF INDEPENDENT AUDITORS

Stockholders and Board of Directors
Lakeland Financial Corporation
Warsaw, Indiana

We have audited the accompanying consolidated balance sheets of Lakeland Financial Corporation ("Company") and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lakeland Financial Corporation and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Crowe Chizek and Company LLC

South Bend, Indiana
January 9, 2004

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The independent auditors have audited the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and provide an objective, independent review of the fairness of the reported operating results and financial position. The board of directors of the Company has an audit review committee composed of six non-management directors. The committee meets periodically with the internal auditors and the independent auditors.

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a -15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2003. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information appearing in the definitive Proxy Statement, dated as of March 5, 2004, is incorporated herein by reference in response to this item.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing in the definitive Proxy Statement, dated as of March 5, 2004, is incorporated herein by reference in response to this item. The sections in the Proxy Statement marked "Report of the Compensation Committee on Executive Compensation", "Stock Price Performance" and "Audit Committee Report" are furnished for the information of the Commission and are not deemed to be "filed" as part of the Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing in the definitive Proxy Statement, dated as of March 5, 2004, is incorporated herein by reference in response to this item.

Equity Compensation Plan Information

The table below sets forth the following information as of December 31, 2003 for (i) all compensation plans previously approved by the Company's shareholders and (ii) all compensation plans not previously approved by the Company's shareholders:

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

=====

EQUITY COMPENSATION PLAN INFORMATION

| Plan category | Number of securities to be issued upon exercise of outstanding options | Weighted-average exercise price of outstanding options | Number of securities remaining available for future issuance |
|--|--|---|---|
| Equity compensation plans approved by security holders..... | 521,475 | 19.12 | 57,765 |
| Equity compensation plans not approved by security holders..... | 0 | 0.00 | 0 |
| Total..... | 521,475 | 19.12 | 57,765 |

=====

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing in the definitive Proxy Statement, dated as of March 5, 2004, is incorporated herein by reference in response to this item.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information appearing in the definitive proxy statement, dated as of March 5, 2004, is incorporated herein by reference in response to this item.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

(a) Exhibits

| Exhibit No. | Document | Incorporated by reference to |
|-------------|---|--|
| 3.1 | Amended and Restated Articles of Incorporation of Lakeland Financial Corporation | Exhibit 4.1 to the Company's Form S-8 filed with the Commission on April 15, 1998 |
| 3.2 | Bylaws of Lakeland Financial Corporation | Exhibit 3(ii) to the Company's Form 10-Q for the quarter ended June 30, 1996 |
| 4.1 | Form of Common Stock Certificate | Attached hereto |
| 10.1 | Lakeland Financial Corporation 1997 Share Incentive Plan | Exhibit 4.3 to the Company's Form S-8 filed with the Commission on April 15, 1998 |
| 10.3 | Form of Indenture for Trust Preferred Issuance | Attached hereto |
| 10.4 | Lakeland Financial Corporation 401(k) Plan | Exhibit 10.1 to the Company's Form S-8 filed with the Commission on October 23, 2000 |
| 10.5 | Amended and Restated Lakeland Financial Corporation Director's Fee Deferral Plan | Exhibit 10.5 to the Company's Form 10-K for the fiscal year ended December 31, 2002 |
| 21.0 | Subsidiaries | Attached hereto |
| 23.1 | Report of Independent Auditors | Item 8 herein |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) | Attached hereto |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) | Attached hereto |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Attached hereto |
| 32.2 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Attached hereto |

(b) Reports on Form 8-K

A report on Form 8-K was filed on October 15, 2003 under Item 12 which reported the Company's third quarter financial information in the form of a press release.

A report on Form 8-K was filed on January 15, 2004 under Item 12 which reported the Company's fourth quarter and fiscal year financial information in the form of a press release.

SIGNATURES

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

LAKELAND FINANCIAL CORPORATION

Date: February 25, 2004 By /s/ Michael L. Kubacki
Michael L. Kubacki, Chairman

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

| Name | Title | Date |
|--|---|-------------------|
| /s/ Michael L. Kubacki Michael L. Kubacki | Principal Executive Officer and Director | February 25, 2004 |
| /s/ David M. Findlay David M. Findlay | Principal Financial Officer | February 25, 2004 |
| /s/ Teresa A. Bartman Teresa A. Bartman | Principal Accounting Officer | February 25, 2004 |
| Robert E. Bartels, Jr | Director | February 25, 2004 |
| /s/ L. Craig Fulmer L. Craig Fulmer | Director | February 25, 2004 |
| /s/ Allan J. Ludwig Allan J. Ludwig | Director | February 25, 2004 |
| /s/ Charles E. Niemier Charles E. Niemier | Director | February 25, 2004 |
| /s/ Emily E. Pichon Emily E. Pichon | Director | February 25, 2004 |
| /s/ Richard L. Pletcher Richard L. Pletcher | Director | February 25, 2004 |

| | | |
|----------------------|----------|-------------------|
| Steven D. Ross | Director | February 25, 2004 |
| Donald B. Steininger | Director | February 25, 2004 |
| Terry L. Tucker | Director | February 25, 2004 |
| M. Scott Welch | Director | February 25, 2004 |

Subsidiaries

1. Lake City Bank, Warsaw, Indiana, a banking corporation organized under the laws of the State of Indiana.
2. Lakeland Statutory Trust II, a statutory business trust formed under Connecticut law.
3. LCB Investments Limited, a subsidiary of Lake City Bank formed under the laws of Bermuda to manage a portion of the Bank's investment portfolio.

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

NUMBER

SHARES

THIS
CERTIFIES
THAT

IS THE
OWNER OF

CUSIP 511656 10 0

fully paid and non-assessable shares of the common capital stock, no par value, of LAKELAND FINANCIAL CORPORATION, (hereinafter called "Corporation"), transferable only on the books of the Corporation by the holder hereof in person, or by attorney, upon surrender of this Certificate properly endorsed. In Witness Whereof, the said Corporation has caused this Certificate to be signed in facsimile by its duly authorized officers.

Dated:

COUNTERSIGNED AND REGISTERED:
AMERICAN STOCK TRANSFER & TRUST COMPANY
(NEW YORK, N.Y.)
TRANSFER AGENT AND REGISTRAR

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

/s/David M. Findlay
SECRETARY

BY: _____
AUTHORIZED SIGNATURE

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

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

| | |
|---|---|
| TEN COM - as tenants in common | UNIF GIFT MIN ACT-...Custodian... |
| TEN ENT - as tenants by the entireties | (Cust) (Minor) |
| JT TEN - as joint tenants with right of survivorship and not as tenants in common | under Uniform Gifts to Minors Act (State) |

For value received _____ hereby sell, assign and transfer unto PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE _____ (PLEASE PRINT ON TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE)

of the Common Capital Shares represented by the within Certificate and do hereby irrevocably constitute and appoint _____ Attorney to transfer the said shares on the books of the within-named Corporation with full power of substitution in the premises.

Dated _____

Signature guaranteed by: _____ Signature _____

COMMERCIAL BANK OR MEMBER FIRM
OF A MAJOR STOCK EXCHANGE

SIGNATURE(S) GUARANTEED: _____

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15,

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

LAKELAND FINANCIAL CORPORATION,
as Issuer

INDENTURE

Dated as of October 1, 2003

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

FLOATING RATE JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

DUE 2033

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INDENTURE

THIS INDENTURE, dated as of October 1, 2003, between Lakeland Financial Corporation, an Indiana corporation (the "Company"), and U.S. Bank National Association, a national banking association organized under the laws of the United States of America, as debenture trustee (the "Trustee").

WITNESSETH:

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the issuance of its Floating Rate Junior Subordinated Deferrable Interest Debentures due 2033 (the "Debentures") under this Indenture to provide, among other things, for the execution and authentication, delivery and administration thereof, and the Company has duly authorized the execution of this Indenture; and

WHEREAS, all acts and things necessary to make this Indenture a valid agreement according to its terms, have been done and performed;

NOW, THEREFORE, This Indenture Witnesseth:

In consideration of the premises, and the purchase of the Debentures by the holders thereof, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective holders from time to time of the Debentures as follows:

ARTICLE I. DEFINITIONS

Section 1.1. Definitions. The terms defined in this Section 1.1 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.1. All accounting terms used herein and not expressly defined shall have the meanings assigned to such terms in accordance with generally accepted accounting principles and the term "generally accepted accounting principles" means such accounting principles as are generally accepted in the United States at the time of any computation. The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Additional Interest" means interest, if any, that shall accrue on any interest on the Debentures the payment of which has not been made on the applicable Interest Payment Date and which shall accrue at the Interest Rate, compounded quarterly (to the extent permitted by law).

"Additional Junior Indebtedness" means, without duplication and other than the Debentures, any indebtedness, liabilities or obligations of the Company, or any Affiliate of the Company, under debt securities (or guarantees

in respect of debt securities) initially issued to any trust, or a trustee of a trust, partnership or other entity affiliated with the Company that is, directly or indirectly, a finance subsidiary (as such term is defined in Rule 3a-5 under the Investment Company Act of 1940) or other financing vehicle of the Company or any Affiliate of the Company in connection with the issuance by that entity of preferred securities or other securities that are eligible to qualify for Tier 1 capital treatment (or its then equivalent) for purposes of the capital adequacy guidelines of the Federal Reserve, as then in effect and applicable to the Company (or, if the Company is not a bank holding company, such guidelines applied to the Company as if the Company were subject to such guidelines); provided, however, that the inability of the Company to treat all or any portion of the Additional Junior Indebtedness as Tier 1 capital shall not disqualify it as Additional Junior Indebtedness if such inability results from the Company having cumulative preferred stock, minority interests in consolidated subsidiaries, or any other class of security or interest which the Federal Reserve now or may hereafter accord Tier 1 capital treatment (including the Debentures) in excess of the amount which may qualify for treatment as Tier 1 capital under applicable capital adequacy guidelines.

"Additional Sums" has the meaning set forth in Section 3.6.

"Affiliate" has the same meaning as given to that term in Rule 405 of the Securities Act or any successor rule thereunder.

"Applicable Depository Procedures" means, with respect to any transfer or transaction involving a Global Debenture or beneficial interest therein, the rules and procedures of the Depository for such Debenture, in each case to the extent applicable to such transaction and as in effect from time to time.

"Authenticating Agent" means any agent or agents of the Trustee which at the time shall be appointed and acting pursuant to Section 6.12.

"Bankruptcy Law" means Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

"Board of Directors" means the board of directors or the executive committee or any other duly authorized designated officers of the Company.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification and delivered to the Trustee.

"Business Day" means any day other than a Saturday, Sunday or any other day on which banking institutions in the city in which the Company's principal place of business is located, New York City or Hartford, Connecticut are permitted or required by any applicable law to close.

"Capital Securities" means undivided beneficial interests in the assets of Lakeland Statutory Trust II which rank pari passu with Common Securities issued by the Trust; provided, however, that upon the occurrence of

an Event of Default (as defined in the Declaration), the rights of holders of such Common Securities to payment in respect of distributions and payments upon liquidation, redemption and otherwise are subordinated to the rights of holders of such Capital Securities.

"Capital Securities Guarantee" means the guarantee agreement that the Company enters into with U.S. Bank National Association, as guarantee trustee, or other Persons that operates directly or indirectly for the benefit of holders of Capital Securities of the Trust.

"Capital Treatment Event" means the receipt by the Company and the Trust of an opinion of counsel experienced in such matters to the effect that, as a result of the occurrence of any amendment to, or change (including any announced prospective change) in, the laws, rules or regulations of the United States or any political subdivision thereof or therein, or as the result of any official or administrative pronouncement or action or decision interpreting or applying such laws, rules or regulations, which amendment or change is effective or which pronouncement, action or decision is announced on or after the date of original issuance of the Debentures, there is more than an insubstantial risk that the Company will not, within 90 days of the date of such opinion be entitled to treat an amount equal to the aggregate liquidation amount of the Debentures as "Tier 1 Capital" (or its then equivalent) for purposes of the capital adequacy guidelines of the Federal Reserve, as then in effect and applicable to the Company (or if the Company is not a bank holding company, such guidelines applied to the Company as if the Company were subject to such guidelines); provided, however, that the inability of the Company to treat all or any portion of the liquidation amount of the Debentures as Tier 1 Capital shall not constitute the basis for a Capital Treatment Event, if such inability results from the Company having cumulative preferred stock, minority interests in consolidated subsidiaries, or any other class of security or interest which the Federal Reserve or OTS, as applicable, may now or hereafter accord Tier 1 Capital treatment in excess of the amount which may now or hereafter qualify for treatment as Tier 1 Capital under applicable capital adequacy guidelines; provided further, however, that the distribution of Debentures in connection with the liquidation of the Trust shall not in and of itself constitute a Capital Treatment Event unless such liquidation shall have occurred in connection with a Tax Event or an Investment Company Event.

"Certificate" means a certificate signed by any one of the principal executive officer, the principal financial officer or the principal accounting officer of the Company.

"Common Securities" means undivided beneficial interests in the assets of the Trust which rank pari passu with Capital Securities issued by the Trust; provided, however, that upon the occurrence of an Event of Default (as defined in the Declaration), the rights of holders of such Common Securities to payment in respect of distributions and payments upon liquidation, redemption and otherwise are subordinated to the rights of holders of such Capital Securities.

"Company" means Lakeland Financial Corporation, an Indiana corporation, and, subject to the provisions of Article XI, shall include its successors and assigns.

"Company Order" means a written order signed in the name of the Company by its Chairman of the Board of Directors, Vice Chairman, Chief

Executive Officer, President, Chief Financial Officer, one of its Managing Directors or one of its Executive Vice Presidents, Senior Vice Presidents or Vice Presidents, and delivered to the Trustee.

"Coupon Rate" has the meaning set forth in Section 2.8.

"Debenture" or "Debentures" has the meaning stated in the first recital of this Indenture.

"Debenture Register" has the meaning specified in Section 2.5.

"Declaration" means the Amended and Restated Declaration of Trust of the Trust, as amended or supplemented from time to time.

"Default" means any event, act or condition that with notice or lapse of time, or both, would constitute an Event of Default.

"Defaulted Interest" has the meaning set forth in Section 2.8.

"Depository" means an organization registered as a clearing agency under the Exchange Act that is designated as Depository by the Company or any successor thereto. DTC will be the initial Depository.

"Distribution Period" has the meaning set forth in Section 2.8.

"Determination Date" has the meaning set forth in Section 2.10.

"Depository Participant" means a broker, dealer, bank, other financial institution or other Person for whom from time to time a Depository effects book-entry transfers and pledges of securities deposited with the Depository.

"DTC" means The Depository Trust Company, a New York corporation.

"Event of Default" means any event specified in Section 5.1, continued for the period of time, if any, and after the giving of the notice, if any, therein designated.

"Extension Period" has the meaning set forth in Section 2.11.

"Federal Reserve" means the Board of Governors of the Federal Reserve System and any successor federal agency that is primarily responsible for regulating the activities of bank holding companies.

"Global Debenture" means a security that evidences all or part of the Debentures, the ownership and transfers of which shall be made through book entries by a Depository.

"Indenture" means this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented, or both.

"Institutional Trustee" has the meaning set forth in the Declaration.

"Interest Payment Date" means each March 31, June 30, September 30 and December 31 during the term of this Indenture and on the Maturity Date.

"Interest Rate" means for the period beginning on (and including) the date of original issuance and ending on (but excluding) December 31, 2003 the rate per annum of 4.21% and for each Distribution Period thereafter, the Coupon Rate.

"Investment Company Event" means the receipt by the Company and the Trust of an opinion of counsel experienced in such matters to the effect that, as a result of the occurrence of a change in law or regulation or written change (including any announced prospective change) in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority, there is more than an insubstantial risk that the Trust is or will be considered an "investment company" that is required to be registered under the Investment Company Act of 1940, as amended, which change or prospective change becomes effective or would become effective, as the case may be, on or after the date of the issuance of the Debentures.

"Liquidation Amount" means the stated amount of \$1,000.00 per Trust Security.

"Maturity Date" means October 1, 2033.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, the Vice Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, any Managing Director or any Vice President, and by the Treasurer, an Assistant Treasurer, the Comptroller, an Assistant Comptroller, the Secretary or an Assistant Secretary of the Company, and delivered to the Trustee. Each such certificate shall include the statements provided for in Section 14.6 if and to the extent required by the provisions of such Section.

"Opinion of Counsel" means an opinion in writing signed by legal counsel, who may be an employee of or counsel to the Company, or may be other counsel reasonably satisfactory to the Trustee. Each such opinion shall include the statements provided for in Section 14.6 if and to the extent required by the provisions of such Section.

"OTS" means the Office of Thrift Supervision and any successor federal agency that is primarily responsible for regulating the activities of savings and loan holding companies.

"Outstanding" means, when used with reference to Debentures, subject to the provisions of Section 7.4, as of any particular time, all Debentures authenticated and delivered by the Trustee or the Authenticating Agent under this Indenture, except:

(a) Debentures theretofore canceled by the Trustee or the Authenticating Agent or delivered to the Trustee for cancellation;

(b) Debentures, or portions thereof, for the payment or redemption of which moneys in the necessary amount shall have been deposited in trust with

the Trustee or with any paying agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own paying agent); provided, however, that, if such Debentures, or portions thereof, are to be redeemed prior to maturity thereof, notice of such redemption shall have been given as provided in Section 10.3 or provision satisfactory to the Trustee shall have been made for giving such notice;

(c) Debentures paid pursuant to Section 2.6 or in lieu of or in substitution for which other Debentures shall have been authenticated and delivered pursuant to the terms of Section 2.6 unless proof satisfactory to the Company and the Trustee is presented that any such Debentures are held by bona fide holders in due course; and

(d) Debentures held in accordance with Section 7.4 hereof.

"Person" means an individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Security" of any particular Debenture means every previous Debenture evidencing all or a portion of the same debt as that evidenced by such particular Debenture; and, for the purposes of this definition, any Debenture authenticated and delivered under Section 2.6 in lieu of a lost, destroyed or stolen Debenture shall be deemed to evidence the same debt as the lost, destroyed or stolen Debenture.

"Principal Office of the Trustee," or other similar term, means the office of the Trustee, at which at any particular time its corporate trust business shall be principally administered, which at the time of the execution of this Indenture shall be 225 Asylum Street, Goodwin Square, Hartford, Connecticut 06103.

"Redemption Date" means the Interest Payment Date fixed for the redemption of Debentures.

"Redemption Price" means 100% of the principal amount of the Debentures being redeemed, plus accrued and unpaid interest on such Debentures to the Redemption Date.

"Responsible Officer" means, with respect to the Trustee, any officer within the Principal Office of the Trustee, including any vice-president, any assistant vice-president, any secretary, any assistant secretary, the treasurer, any assistant treasurer, any trust officer or other officer of the Principal Trust Office of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

"Securities Act" means the Securities Act of 1933, as amended from time to time or any successor legislation.

"Securityholder," "holder of Debentures," or other similar terms, means any Person in whose name at the time a particular Debenture is registered on the register kept by the Company or the Trustee for that purpose in accordance with the terms hereof.

"Senior Indebtedness" means, with respect to the Company, whether incurred on or prior to the date of this Indenture or thereafter incurred, (i) the principal, premium, if any, and interest in respect of (A) indebtedness of the Company for money borrowed and (B) indebtedness evidenced by securities, debentures, notes, bonds or other similar instruments issued by the Company; (ii) all capital lease obligations of the Company; (iii) all obligations of the Company issued or assumed as the deferred purchase price of property, all conditional sale obligations of the Company and all obligations of the Company under any title retention agreement; (iv) all obligations of the Company for the reimbursement of any letter of credit, any banker's acceptance, any security purchase facility, any repurchase agreement or similar arrangement, any interest rate swap, any other hedging arrangement, any obligation under options or any similar credit or other transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other Persons for the payment of which the Company is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other Persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by the Company). Notwithstanding the foregoing, "Senior Indebtedness" shall not include (1) any Additional Junior Indebtedness, (2) Debentures issued pursuant to this Indenture and guarantees in respect of such Debentures, (3) trade accounts payable of the Company arising in the ordinary course of business (such trade accounts payable being pari passu in right of payment to the Debentures), or (4) obligations with respect to which (a) in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are pari passu, junior or otherwise not superior in right of payment to the Debentures and (b) the Company, prior to the issuance thereof, has notified (and, if then required under the applicable guidelines of the regulating entity, has received approval from) the Federal Reserve (if the Company is a bank holding company) or the OTS (if the Company is a savings and loan holding company). Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the subordination provisions irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

"Special Event" means any of a Capital Treatment Event, an Investment Company Event or a Tax Event.

"Subsidiary" means with respect to any Person, (i) any corporation at least a majority of the outstanding voting stock of which is owned, directly or indirectly, by such Person or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries, (ii) any general partnership, joint venture, limited liability company or similar entity, at least a majority of the outstanding partnership or similar interests of which shall at the time be owned by such Person, or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries and (iii) any limited partnership of which such Person or any of its Subsidiaries is a general partner. For the purposes of this definition, "voting stock" means shares, interests, participations or other equivalents in the equity interest (however designated) in such Person having ordinary voting power for the election of a majority of the directors (or the equivalent) of such Person,

other than shares, interests, participations or other equivalents having such power only by reason of the occurrence of a contingency.

"Tax Event" means the receipt by the Company and the Trust of an opinion of counsel experienced in such matters to the effect that, as a result of any amendment to or change (including any announced prospective change) in the laws or any regulations thereunder of the United States or any political subdivision or taxing authority thereof or therein, or as a result of any official administrative pronouncement (including any private letter ruling, technical advice memorandum, field service advice, regulatory procedure, notice or announcement, including any notice or announcement of intent to adopt such procedures or regulations (an "Administrative Action")) or judicial decision interpreting or applying such laws or regulations, regardless of whether such Administrative Action or judicial decision is issued to or in connection with a proceeding involving the Company or the Trust and whether or not subject to review or appeal, which amendment, clarification, change, Administrative Action or decision is enacted, promulgated or announced, in each case on or after the date of original issuance of the Debentures, there is more than an insubstantial risk that: (i) the Trust is, or will be within 90 days of the date of such opinion, subject to United States federal income tax with respect to income received or accrued on the Debentures; (ii) interest payable by the Company on the Debentures is not, or within 90 days of the date of such opinion, will not be, deductible by the Company, in whole or in part, for United States federal income tax purposes; or (iii) the Trust is, or will be within 90 days of the date of such opinion, subject to more than a de minimis amount of other taxes, duties or other governmental charges. Provided, however, if the Company may eliminate the results described in (i) through (iii) of such Administrative Action or judicial decision interpreting or applying such laws or regulations by taking some ministerial action, such as filing a form or making an election, or pursuing some other similar reasonable measure which has no adverse effect on the Company, the Trustee, the Trust or the Holders of the Capital Securities issued by the Trust, such Administrative Action or judicial decision shall not be deemed a Tax Event.

"3-Month LIBOR" has the meaning set forth in Section 2.10.

"Telerate Page 3750" has the meaning set forth in Section 2.10.

"Trust" shall mean Lakeland Statutory Trust II, a Connecticut statutory trust, or any other similar trust created for the purpose of issuing Capital Securities in connection with the issuance of Debentures under this Indenture, of which the Company is the sponsor.

"Trust Agreement" means the Amended and Restated Declaration of Trust, dated October 1, 2003, by and among U.S. Bank National Association, as Institutional Trustee, Lakeland Financial Corporation, as Sponsor, and the Administrators named therein, and any amendments or supplements thereto.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended from time to time, or any successor legislation.

"Trust Securities" means Common Securities and Capital Securities of the Trust.

"Trustee" means U.S. Bank National Association, and, subject to the provisions of Article VI hereof, shall also include its successors and assigns as Trustee hereunder.

ARTICLE II.
DEBENTURES

Section 2.1. Authentication and Dating. Upon the execution and delivery of this Indenture, or from time to time thereafter, Debentures in an aggregate principal amount not in excess of \$30,928,000 may be executed and delivered by the Company to the Trustee for authentication, and the Trustee shall thereupon authenticate and make available for delivery said Debentures to or upon the written order of the Company, signed by its Chairman of the Board of Directors, Vice Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, one of its Managing Directors or one of its Vice Presidents without any further action by the Company hereunder. In authenticating such Debentures, and accepting the additional responsibilities under this Indenture in relation to such Debentures, the Trustee shall be entitled to receive, and (subject to Section 6.1) shall be fully protected in relying upon:

(a) a copy of any Board Resolution or Board Resolutions relating thereto and, if applicable, an appropriate record of any action taken pursuant to such resolution, in each case certified by the Secretary or an Assistant Secretary of the Company, as the case may be and

(b) an Opinion of Counsel prepared in accordance with Section 14.6 which shall also state:

(1) that such Debentures, when authenticated and delivered by the Trustee and issued by the Company in each case in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company, subject to or limited by applicable bankruptcy, insolvency, reorganization, conservatorship, receivership, moratorium and other statutory or decisional laws relating to or affecting creditors' rights or the reorganization of financial institutions (including, without limitation, preference and fraudulent conveyance or transfer laws), heretofore or hereafter enacted or in effect, affecting the rights of creditors generally; and

(2) that all laws and requirements in respect of the execution and delivery by the Company of the Debentures have been complied with and that authentication and delivery of the Debentures by the Trustee will not violate the terms of this Indenture.

The Trustee shall have the right to decline to authenticate and deliver any Debentures under this Section if the Trustee, being advised in writing by counsel, determines that such action may not lawfully be taken or if a Responsible Officer of the Trustee in good faith shall determine that such action would expose the Trustee to personal liability to existing holders.

The definitive Debentures shall be typed, printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Debentures, as evidenced by their execution of such Debentures.

Section 2.2. Form of Trustee's Certificate of Authentication. The Trustee's certificate of authentication on all Debentures shall be in substantially the following form:

This is one of the Debentures referred to in the within-mentioned Indenture.

U.S. Bank National Association, as Trustee

By

Authorized Signer

Section 2.3. Form and Denomination of Debentures. The Debentures shall be substantially in the form of Exhibit A attached hereto. The Debentures shall be in registered, certificated form without coupons and in minimum denominations of \$500,000.00 and any multiple of \$1,000.00 in excess thereof. Any attempted transfer of the Debentures in a block having an aggregate principal amount of less than \$500,000.00 shall be deemed to be void and of no legal effect whatsoever. Any such purported transferee shall be deemed not to be a holder of such Debentures for any purpose, including, but not limited to the receipt of payments on such Debentures, and such purported transferee shall be deemed to have no interest whatsoever in such Debentures. The Debentures shall be numbered, lettered, or otherwise distinguished in such manner or in accordance with such plans as the officers executing the same may determine with the approval of the Trustee as evidenced by the execution and authentication thereof.

Section 2.4. Execution of Debentures. The Debentures shall be signed in the name and on behalf of the Company by the manual or facsimile signature of its Chairman of the Board of Directors, Vice Chairman, Chief Executive Officer, President, Chief Financial Officer, one of its Managing Directors or one of its Executive Vice Presidents, Senior Vice Presidents or Vice Presidents. Only such Debentures as shall bear thereon a certificate of authentication substantially in the form herein before recited, executed by the Trustee or the Authenticating Agent by the manual signature of an authorized signer, shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee or the Authenticating Agent upon any Debenture executed by the Company shall be conclusive evidence that the Debenture so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

In case any officer of the Company who shall have signed any of the Debentures shall cease to be such officer before the Debentures so signed shall have been authenticated and delivered by the Trustee or the Authenticating Agent, or disposed of by the Company, such Debentures nevertheless may be authenticated and delivered or disposed of as though the Person who signed such Debentures had not ceased to be such officer of the Company; and any Debenture may be signed on behalf of the Company by such Persons as, at the actual date of the execution of such Debenture, shall be the proper officers of the Company, although at the date of the execution of this Indenture any such person was not such an officer.

Every Debenture shall be dated the date of its authentication.

Section 2.5. Exchange and Registration of Transfer of Debentures. The Company shall cause to be kept, at the office or agency maintained for the purpose of registration of transfer and for exchange as provided in Section

3.2, a register (the "Debenture Register") for the Debentures issued hereunder in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration and transfer of all Debentures as in this Article II provided. The Debenture Register shall be in written form or in any other form capable of being converted into written form within a reasonable time.

Debentures to be exchanged may be surrendered at the Principal Office of the Trustee or at any office or agency to be maintained by the Company for such purpose as provided in Section 3.2, and the Company shall execute, the Company or the Trustee shall register and the Trustee or the Authenticating Agent shall authenticate and make available for delivery in exchange therefor the Debenture or Debentures which the Securityholder making the exchange shall be entitled to receive. Upon due presentment for registration of transfer of any Debenture at the Principal Office of the Trustee or at any office or agency of the Company maintained for such purpose as provided in Section 3.2, the Company shall execute, the Company or the Trustee shall register and the Trustee or the Authenticating Agent shall authenticate and make available for delivery in the name of the transferee or transferees a new Debenture for a like aggregate principal amount. Registration or registration of transfer of any Debenture by the Trustee or by any agent of the Company appointed pursuant to Section 3.2, and delivery of such Debenture, shall be deemed to complete the registration or registration of transfer of such Debenture.

All Debentures presented for registration of transfer or for exchange or payment shall (if so required by the Company or the Trustee or the Authenticating Agent) be duly endorsed by, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Company and the Trustee or the Authenticating Agent duly executed by the holder or his attorney duly authorized in writing.

No service charge shall be made for any exchange or registration of transfer of Debentures, but the Company or the Trustee may require payment of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in connection therewith.

The Company or the Trustee shall not be required to exchange or register a transfer of any Debenture for a period of 15 days next preceding the date of selection of Debentures for redemption.

Notwithstanding anything herein to the contrary, Debentures may not be transferred except in compliance with the restricted securities legend set forth below, unless otherwise determined by the Company, upon the advice of counsel experienced in securities law, in accordance with applicable law:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAW. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A IN ACCORDANCE WITH RULE 144A, (D) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 (AS APPLICABLE) OF REGULATION S UNDER THE SECURITIES ACT, (E) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF SUBPARAGRAPH (A) OF RULE 501 UNDER THE SECURITIES ACT THAT IS ACQUIRING THIS SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL ACCREDITED INVESTOR, FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (F) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO IT IN ACCORDANCE WITH THE INDENTURE, A COPY OF WHICH MAY BE OBTAINED FROM THE COMPANY.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF ALSO AGREES, REPRESENTS AND WARRANTS THAT IT IS NOT AN EMPLOYEE BENEFIT, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER PLAN OR ARRANGEMENT SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") (EACH A "PLAN"), OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY PLAN'S INVESTMENT IN THE ENTITY, AND NO PERSON INVESTING "PLAN ASSETS" OF ANY PLAN MAY ACQUIRE OR HOLD THE SECURITIES OR ANY INTEREST THEREIN, UNLESS SUCH PURCHASER OR HOLDER IS ELIGIBLE FOR EXEMPTIVE RELIEF AVAILABLE UNDER U.S. DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION 96-23, 95-60, 91-38, 90-1 OR 84-14 OR ANOTHER APPLICABLE EXEMPTION OR ITS PURCHASE AND HOLDING OF THIS SECURITY IS NOT PROHIBITED BY SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE WITH RESPECT TO SUCH PURCHASE OR HOLDING. ANY PURCHASER OR HOLDER OF THE SECURITIES OR ANY INTEREST THEREIN WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE AND HOLDING THEREOF THAT EITHER (i) IT IS NOT AN EMPLOYEE BENEFIT PLAN WITHIN THE MEANING OF SECTION 3(3) OF ERISA, OR A PLAN TO WHICH SECTION 4975 OF THE CODE IS APPLICABLE, A TRUSTEE OR OTHER PERSON ACTING ON BEHALF OF AN EMPLOYEE BENEFIT PLAN OR PLAN, OR ANY OTHER PERSON OR ENTITY USING THE ASSETS OF ANY EMPLOYEE BENEFIT PLAN OR PLAN TO FINANCE SUCH PURCHASE, OR (ii) SUCH PURCHASE WILL NOT RESULT IN A

PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH THERE IS NO APPLICABLE STATUTORY OR ADMINISTRATIVE EXEMPTION.

THIS SECURITY WILL BE ISSUED AND MAY BE TRANSFERRED ONLY IN BLOCKS HAVING AN AGGREGATE PRINCIPAL AMOUNT OF NOT LESS THAN \$500,000.00 AND MULTIPLES OF \$1,000.00 IN EXCESS THEREOF. ANY ATTEMPTED TRANSFER OF THIS SECURITY IN A BLOCK HAVING AN AGGREGATE PRINCIPAL AMOUNT OF LESS THAN \$500,000.00 SHALL BE DEEMED TO BE VOID AND OF NO LEGAL EFFECT WHATSOEVER.

THE HOLDER OF THIS SECURITY AGREES THAT IT WILL COMPLY WITH THE FOREGOING RESTRICTIONS.

Section 2.6. Mutilated, Destroyed, Lost or Stolen Debentures. In case any Debenture shall become mutilated or be destroyed, lost or stolen, the Company shall execute, and upon its written request the Trustee shall authenticate and deliver, a new Debenture bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated Debenture, or in lieu of and in substitution for the Debenture so destroyed, lost or stolen. In every case the applicant for a substituted Debenture shall furnish to the Company and the Trustee such security or indemnity as may be required by them to save each of them harmless, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company and the Trustee evidence to their satisfaction of the destruction, loss or theft of such Debenture and of the ownership thereof.

The Trustee may authenticate any such substituted Debenture and deliver the same upon the written request or authorization of any officer of the Company. Upon the issuance of any substituted Debenture, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith. In case any Debenture which has matured or is about to mature or has been called for redemption in full shall become mutilated or be destroyed, lost or stolen, the Company may, instead of issuing a substitute Debenture, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Debenture) if the applicant for such payment shall furnish to the Company and the Trustee such security or indemnity as may be required by them to save each of them harmless and, in case of destruction, loss or theft, evidence satisfactory to the Company and to the Trustee of the destruction, loss or theft of such Debenture and of the ownership thereof.

Every substituted Debenture issued pursuant to the provisions of this Section 2.6 by virtue of the fact that any such Debenture is destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Debenture shall be found at any time, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Debentures duly issued hereunder. All Debentures shall be held and owned upon the express condition that, to the extent permitted by applicable law, the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Debentures and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to

the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

Section 2.7. Temporary Debentures. Pending the preparation of definitive Debentures, the Company may execute and the Trustee shall authenticate and make available for delivery temporary Debentures that are typed, printed or lithographed. Temporary Debentures shall be issuable in any authorized denomination, and substantially in the form of the definitive Debentures in lieu of which they are issued but with such omissions, insertions and variations as may be appropriate for temporary Debentures, all as may be determined by the Company. Every such temporary Debenture shall be executed by the Company and be authenticated by the Trustee upon the same conditions and in substantially the same manner, and with the same effect, as the definitive Debentures. Without unreasonable delay the Company will execute and deliver to the Trustee or the Authenticating Agent definitive Debentures and thereupon any or all temporary Debentures may be surrendered in exchange therefor, at the principal corporate trust office of the Trustee or at any office or agency maintained by the Company for such purpose as provided in Section 3.2, and the Trustee or the Authenticating Agent shall authenticate and make available for delivery in exchange for such temporary Debentures a like aggregate principal amount of such definitive Debentures. Such exchange shall be made by the Company at its own expense and without any charge therefor except that in case of any such exchange involving a registration of transfer the Company may require payment of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto. Until so exchanged, the temporary Debentures shall in all respects be entitled to the same benefits under this Indenture as definitive Debentures authenticated and delivered hereunder.

Section 2.8. Payment of Interest and Additional Interest. Interest at the Interest Rate and any Additional Interest on any Debenture that is payable, and is punctually paid or duly provided for, on any Interest Payment Date for Debentures shall be paid to the Person in whose name said Debenture (or one or more Predecessor Securities) is registered at the close of business on the regular record date for such interest installment except that interest and any Additional Interest payable on the Maturity Date shall be paid to the Person to whom principal is paid. In the event that any Debenture or portion thereof is called for redemption and the Redemption Date is subsequent to a regular record date with respect to any Interest Payment Date and prior to such Interest Payment Date, interest on such Debenture will be paid upon presentation and surrender of such Debenture.

Each Debenture shall bear interest for the period beginning on (and including) the date of original issuance and ending on (but excluding) December 31, 2003 at a rate per annum of 4.21%, and shall bear interest for each successive period beginning on (and including) December 31, 2003, and each succeeding Interest Payment Date, and ending on (but excluding) the next succeeding Interest Payment Date (each, a "Distribution Period") at a rate per annum equal to the 3-Month LIBOR, determined as described in Section 2.10, plus 3.05% (the "Coupon Rate"), applied to the principal amount thereof, until the principal thereof becomes due and payable, and on any overdue principal and to the extent that payment of such interest is enforceable under applicable law (without duplication) on any overdue installment of interest at the Interest Rate compounded quarterly. Interest shall be payable (subject to

any relevant Extension Period) quarterly in arrears on each Interest Payment Date with the first installment of interest to be paid on December 31, 2003.

In the event that the 3-Month LIBOR is indeterminable by the methods described in Section 2.10, the Coupon Rate shall equal the 3-Month LIBOR in effect on the most recent Determination Date (whether or not 3-Month LIBOR for such period was in fact determined on such Determination Date) plus 3.05%.

Any interest on any Debenture, including Additional Interest, that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered holder on the relevant regular record date by virtue of having been such holder; and such Defaulted Interest shall be paid by the Company to the Persons in whose names such Debentures (or their respective Predecessor Securities) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner: the Company shall notify the Trustee in writing at least 25 days prior to the date of the proposed payment of the amount of Defaulted Interest proposed to be paid on each such Debenture and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a special record date for the payment of such Defaulted Interest which shall not be more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payments. The Trustee shall promptly notify the Company of such special record date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be mailed, first class postage prepaid, to each Securityholder at its address as it appears in the Debenture Register, not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names such Debentures (or their respective Predecessor Securities) are registered on such special record date and shall be no longer payable.

The Company may make payment of any Defaulted Interest on any Debentures in any other lawful manner after notice given by the Company to the Trustee of the proposed payment method, provided, however, the Trustee in its sole discretion deems such payment method to be practical.

Any interest scheduled to become payable on an Interest Payment Date occurring during an Extension Period shall not be Defaulted Interest and shall be payable on such other date as may be specified in the terms of such Debentures.

The term "regular record date" as used in this Section shall mean the close of business on the 15th day next preceding the applicable Interest Payment Date.

Subject to the foregoing provisions of this Section, each Debenture delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Debenture shall carry the rights to interest accrued and unpaid, and to accrue, that were carried by such other Debenture.

Section 2.9. Cancellation of Debentures Paid, etc. All Debentures surrendered for the purpose of payment, redemption, exchange or registration of transfer, shall, if surrendered to the Company or any paying agent, be surrendered to the Trustee and promptly canceled by it, or, if surrendered to the Trustee or any Authenticating Agent, shall be promptly canceled by it, and no Debentures shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. All Debentures canceled by any Authenticating Agent shall be delivered to the Trustee. The Trustee shall destroy all canceled Debentures unless the Company otherwise directs the Trustee in writing. If the Company shall acquire any of the Debentures, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Debentures unless and until the same are surrendered to the Trustee for cancellation.

Section 2.10. Computation of Interest Rate. The amount of interest payable for the Distribution Period commencing on December 31, 2003 and each succeeding Distribution Period will be calculated by applying the Interest Rate to the principal amount outstanding at the commencement of the Distribution Period and multiplying each such amount by the actual number of days in the Distribution Period concerned divided by 360. In the event that any date on which interest is payable on the Debentures is not a Business Day, then payment of interest payable on such date shall be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on the date such payment was originally payable. All percentages resulting from any calculations on the Debentures will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% or .09876545 being rounded to 9.87655% or .0987655) and all dollar amounts used in or resulting from such calculation will be rounded to the nearest cent, with one-half cent being rounded upward.

(a) "3-Month LIBOR" means the London interbank offered rate for three-month, U.S. dollar deposits determined by the Trustee in the following order of priority:

(1) the rate (expressed as a percentage per annum) for U.S. dollar deposits of an amount equal or comparable to the aggregate liquidation amount of the Debentures having a three-month maturity that appears on Telerate Page 3750 as of 11:00 a.m. (London time) on the particular Determination Date (as defined below). "Telerate Page 3750" means the display designated as "Page 3750" on the Dow Jones Telerate Service or such other page as may replace Page 3750 on that service or such other service or services as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying London interbank offered rates for U.S. dollars deposits;

(2) if such rate does not appear on Telerate Page 3750 as of 11:00 a.m. (London time) on the Determination Date, 3-Month LIBOR will be the

arithmetic mean of the rates (expressed as percentages per annum) for U.S. dollar deposits of an amount equal or comparable to the aggregate liquidation amount of the Debentures having a three-month maturity that appear on Reuters Monitor Money Rates Page LIBO ("Reuters Page LIBO") as of 11:00 a.m. (London time) on such Determination Date;

(3) if such rate does not appear on Reuters Page LIBO as of 11:00 a.m. (London time) on the related Determination Date, the Trustee will request the principal London offices of four leading banks in the London interbank market to provide such banks' offered quotations (expressed as percentages per annum) to prime banks in the London interbank market for U.S. dollar deposits of an amount equal or comparable to the aggregate liquidation amount of the Debentures having a three-month maturity as of 11:00 a.m. (London time) on such Determination Date. If at least two quotations are provided, 3-Month LIBOR will be the arithmetic mean of such quotations; and

(4) if fewer than two such quotations are provided as requested in clause (3) above, the Trustee will request four major New York City banks to provide such banks' offered quotations (expressed as percentages per annum) to leading European banks for loans in U.S. dollars of an amount equal or comparable to the aggregate liquidation amount of the Debentures as of 11:00 a.m. (London time) on such Determination Date. If at least two such quotations are provided, 3-Month LIBOR will be the arithmetic mean of such quotations.

If the rate for U.S. dollar deposits of an amount equal or comparable to the aggregate liquidation amount of the Debentures having a three-month maturity that initially appears on Telerate Page 3750 or Reuters Page LIBO, as the case may be, as of 11:00 a.m. (London time) on the related Determination Date is superseded on the Telerate page 3750 or Reuters Page LIBO, as the case may be, by a corrected rate by 12:00 noon (London time) on such Determination Date, then the corrected rate as so substituted on the applicable page will be the applicable 3-Month LIBOR for such Determination Date.

(5) The Coupon Rate for any Distribution Period will at no time be higher than the maximum rate then permitted by New York law as the same may be modified by United States law.

"Determination Date" means the date that is two London Banking Days (i.e., a business day in which dealings in deposits in U.S. dollars are transacted in the London interbank market) preceding the particular Distribution Period for which a Coupon Rate is being determined.

(b) The Trustee shall notify the Company, the Institutional Trustee and any securities exchange or interdealer quotation system on which the Capital Securities are listed, of the Coupon Rate and the Determination Date for each Distribution Period, in each case as soon as practicable after the determination thereof but in no event later than the thirtieth (30th) Business Day of the relevant Distribution Period. Failure to notify the Company, the Institutional Trustee or any securities exchange or interdealer quotation system, or any defect in said notice, shall not affect the obligation of the Company to make payment on the Debentures at the applicable Coupon Rate. Any error in the calculation of the Coupon Rate by the Institutional Trustee may be corrected at any time by notice delivered as above provided. Upon the

request of a holder of a Debenture, the Trustee shall provide the Coupon Rate then in effect and, if determined, the Coupon Rate for the next Distribution Period.

(c) Subject to the corrective rights set forth above, all certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions relating to the payment and calculation of interest on the Debentures and distributions on the Capital Securities by the Trustee or the Institutional Trustee will (in the absence of willful default, bad faith or manifest error) be final, conclusive and binding on the Trust, the Company and all of the holders of the Debentures and the Capital Securities, and no liability shall (in the absence of willful default, bad faith or manifest error) attach to the Trustee or the Institutional Trustee in connection with the exercise or non-exercise by either of them or their respective powers, duties and discretion.

Section 2.11. Extension of Interest Payment Period. So long as no Event of Default has occurred and is continuing, the Company shall have the right, from time to time, and without causing an Event of Default, to defer payments of interest on the Debentures by extending the interest payment period on the Debentures at any time and from time to time during the term of the Debentures, for up to 20 consecutive quarterly periods (each such extended interest payment period, an "Extension Period"), during which Extension Period no interest (including Additional Interest) shall be due and payable. No Extension Period may end on a date other than an Interest Payment Date. At the end of any such Extension Period the Company shall pay all interest then accrued and unpaid on the Debentures (together with Additional Interest thereon); provided, however, that no Extension Period may extend beyond the Maturity Date; provided further, however, that during any such Extension Period, the Company shall not and shall not permit any Affiliate to (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Company's or such Affiliate's capital stock (other than payments of dividends or distributions to the Company) or make any guarantee payments with respect to the foregoing or (ii) make any payment of principal or interest or premium, if any, on or repay, repurchase or redeem any debt securities of the Company or any Affiliate that rank pari passu in all respects with or junior in interest to the Debentures (other than, with respect to clauses (i) or (ii) above, (a) repurchases, redemptions or other acquisitions of shares of capital stock of the Company in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of one or more employees, officers, directors or consultants, in connection with a dividend reinvestment or stockholder stock purchase plan or in connection with the issuance of capital stock of the Company (or securities convertible into or exercisable for such capital stock) as consideration in an acquisition transaction entered into prior to the applicable Extension Period, (b) as a result of any exchange or conversion of any class or series of the Company's capital stock (or any capital stock of a subsidiary of the Company) for any class or series of the Company's capital stock or of any class or series of the Company's indebtedness for any class or series of the Company's capital stock, (c) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (d) any declaration of a dividend in connection with any stockholders' rights plan, or the issuance of rights, stock or other property under any stockholders' rights plan, or the redemption or repurchase of rights pursuant thereto, (e) any dividend in the form of stock, warrants, options or other rights where the dividend stock or the stock

issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks pari passu with or junior to such stock and any cash payments in lieu of fractional shares issued in connection therewith, or (f) payments under the Capital Securities Guarantee. Prior to the termination of any Extension Period, the Company may further extend such period, provided that such period together with all such previous and further consecutive extensions thereof shall not exceed 20 consecutive quarterly periods, or extend beyond the Maturity Date. Upon the termination of any Extension Period and upon the payment of all accrued and unpaid interest and Additional Interest, the Company may commence a new Extension Period, subject to the foregoing requirements. No interest or Additional Interest shall be due and payable during an Extension Period, except at the end thereof, but each installment of interest that would otherwise have been due and payable during such Extension Period shall bear Additional Interest to the extent permitted by applicable law. The Company must give the Trustee notice of its election to begin or extend such Extension Period at least 5 Business Days prior to the regular record date (as such term is used in Section 2.8) immediately preceding the Interest Payment Date with respect to which interest on the Debentures would have been payable except for the election to begin or extend such Extension Period.

Section 2.12. CUSIP Numbers. The Company in issuing the Debentures may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use CUSIP numbers in notices of redemption as a convenience to Securityholders; provided, however, that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Debentures or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Debentures, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee in writing of any change in the CUSIP numbers.

Section 2.13. Global Debentures.

(a) Upon the election of the holder of Outstanding Debentures, which election need not be in writing, the Debentures owned by such holder shall be issued in the form of one or more Global Debentures registered in the name of the Depository or its nominee. Each Global Debenture issued under this Indenture shall be registered in the name of the Depository designated by the Company for such Global Debenture or a nominee thereof and delivered to such Depository or a nominee thereof or custodian therefor, and each such Global Debenture shall constitute a single Debenture for all purposes of this Indenture.

(b) Notwithstanding any other provision in this Indenture, no Global Debenture may be exchanged in whole or in part for Debentures registered, and no transfer of a Global Debenture in whole or in part may be registered, in the name of any Person other than the Depository for such Global Debenture or a nominee thereof unless (i) such Depository advises the Trustee and the Company in writing that such Depository is no longer willing or able to properly discharge its responsibilities as Depository with respect to such Global Debenture, and no qualified successor is appointed by the Company within ninety (90) days of receipt by the Company of such notice, (ii) such Depository ceases to be a clearing agency registered under the Exchange Act and no successor is appointed by the Company within ninety (90) days after obtaining knowledge of such event, (iii) the Company executes and delivers to the Trustee a Company Order stating that the Company elects to terminate the

book-entry system through the Depository or (iv) an Event of Default shall have occurred and be continuing. Upon the occurrence of any event specified in clause (i), (ii), (iii) or (iv) above, the Trustee shall notify the Depository and instruct the Depository to notify all owners of beneficial interests in such Global Debenture of the occurrence of such event and of the availability of Debentures to such owners of beneficial interests requesting the same. Upon the issuance of such Debentures and the registration in the Debenture Register of such Debentures in the names of the Holders of the beneficial interests therein, the Trustee shall recognize such holders of beneficial interests as Holders.

(c) If any Global Debenture is to be exchanged for other Debentures or canceled in part, or if another Debenture is to be exchanged in whole or in part for a beneficial interest in any Global Debenture, then either (i) such Global Debenture shall be so surrendered for exchange or cancellation as provided in this Article II or (ii) the principal amount thereof shall be reduced or increased by an amount equal to the portion thereof to be so exchanged or canceled, or equal to the principal amount of such other Debenture to be so exchanged for a beneficial interest therein, as the case may be, by means of an appropriate adjustment made on the records of the Debenture registrar, whereupon the Trustee, in accordance with the Applicable Depository Procedures, shall instruct the Depository or its authorized representative to make a corresponding adjustment to its records. Upon any such surrender or adjustment of a Global Debenture by the Depository, accompanied by registration instructions, the Company shall execute and the Trustee shall authenticate and deliver any Debentures issuable in exchange for such Global Debenture (or any portion thereof) in accordance with the instructions of the Depository. The Trustee shall not be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be fully protected in relying on, such instructions.

(d) Every Debenture authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Debenture or any portion thereof shall be authenticated and delivered in the form of, and shall be, a Global Debenture, unless such Debenture is registered in the name of a Person other than the Depository for such Global Debenture or a nominee thereof.

(e) Debentures distributed to holders of Book-Entry Capital Securities (as defined in the Trust Agreement) upon the dissolution of the Trust shall be distributed in the form of one or more Global Debentures registered in the name of a Depository or its nominee, and deposited with the Debentures registrar, as custodian for such Depository, or with such Depository, for credit by the Depository to the respective accounts of the beneficial owners of the Debentures represented thereby (or such other accounts as they may direct). Debentures distributed to holders of Capital Securities other than Book-Entry Capital Securities upon the dissolution of the Trust shall not be issued in the form of a Global Debenture or any other form intended to facilitate book-entry trading in beneficial interests in such Debentures.

(f) The Depository or its nominee, as the registered owner of a Global Debenture, shall be the Holder of such Global Debenture for all purposes under this Indenture and the Debentures, and owners of beneficial interests in a Global Debenture shall hold such interests pursuant to the Applicable Depository Procedures. Accordingly, any such owner's beneficial interest in a Global Debenture shall be shown only on, and the transfer of such interest shall be effected only through, records maintained by the Depository or its nominee or its Depository Participants. The Debentures

registrar and the Trustee shall be entitled to deal with the Depositary for all purposes of this Indenture relating to a Global Debenture (including the payment of principal and interest thereon and the giving of instructions or directions by owners of beneficial interests therein and the giving of notices) as the sole Holder of the Debenture and shall have no obligations to the owners of beneficial interests therein. Neither the Trustee nor the Debentures registrar shall have any liability in respect of any transfers effected by the Depositary.

(g) The rights of owners of beneficial interests in a Global Debenture shall be exercised only through the Depositary and shall be limited to those established by law and agreements between such owners and the Depositary and/or its Depositary Participants.

(h) No holder of any beneficial interest in any Global Debenture held on its behalf by a Depositary shall have any rights under this Indenture with respect to such Global Debenture, and such Depositary may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the owner of such Global Debenture for all purposes whatsoever. None of the Company, the Trustee nor any agent of the Company or the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Debenture or maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by a Depositary or impair, as between a Depositary and such holders of beneficial interests, the operation of customary practices governing the exercise of the rights of the Depositary (or its nominee) as holder of any Debenture.

ARTICLE III.
PARTICULAR COVENANTS OF THE COMPANY

Section 3.1. Payment of Principal, Premium and Interest; Agreed Treatment of the Debentures.

(a) The Company covenants and agrees that it will duly and punctually pay or cause to be paid the principal of and premium, if any, and Interest and any Additional Interest on the Debentures at the place, at the respective times and in the manner provided in this Indenture and the Debentures. Each installment of interest on the Debentures may be paid (i) by mailing checks for such interest payable to the order of the holder of Debentures entitled thereto as they appear on the registry books of the Company if a request for a wire transfer has not been received by the Company or (ii) by wire transfer to any account with a banking institution located in the United States designated in writing by such Person to the paying agent no later than the related record date. Notwithstanding the foregoing, so long as the Institutional Trustee, not in its individual capacity but solely as Institutional Trustee for Lakeland Statutory Trust II, is the holder of the Debentures, the payment of the principal and Interest on the Debentures shall be made by wire transfer of immediately available funds to the Institutional Trustee, to be received not later than 1:00 p.m., New York City time, on the Interest Payment Date of such payment at the Principal Office of the Trustee for distribution to the holders of the Capital Securities. Notwithstanding any other provision of this

Indenture to the contrary, the Institutional Trustee shall not be required to make, or cause to be made, distributions to the holders of the Capital Securities, as aforesaid prior to the first Business Day on which it is practicable for the Institutional Trustee to do so in view of the time of day when the funds to be so transferred were received by it if such funds were received after 1:00 p.m., New York City time.

(b) The Company will treat the Debentures as indebtedness, and the amounts payable in respect of the principal amount of such Debentures as interest, for all United States federal income tax purposes. All payments in respect of such Debentures will be made free and clear of United States withholding tax to any beneficial owner thereof that has provided an Internal Revenue Service Form W8 BEN (or any substitute or successor form) establishing its non-United States status for United States federal income tax purposes.

(c) As of the date of this Indenture, the Company has no present intention to exercise its right under Section 2.11 to defer payments of interest on the Debentures by commencing an Extension Period.

(d) As of the date of this Indenture, the Company believes that the likelihood that it would exercise its right under Section 2.11 to defer payments of interest on the Debentures by commencing an Extension Period at any time during which the Debentures are outstanding is remote because of the restrictions that would be imposed on the Company's ability to declare or pay dividends or distributions on, or to redeem, purchase or make a liquidation payment with respect to, any of its outstanding equity and on the Company's ability to make any payments of principal of or interest on, or repurchase or redeem, any of its debt securities that rank pari passu in all respects with (or junior in interest to) the Debentures.

Section 3.2. Offices for Notices and Payments, etc. So long as any of the Debentures remain outstanding, the Company will maintain in Hartford, Connecticut, an office or agency where the Debentures may be presented for payment, an office or agency where the Debentures may be presented for registration of transfer and for exchange as in this Indenture provided and an office or agency where notices and demands to or upon the Company in respect of the Debentures or of this Indenture may be served. The Company will give to the Trustee written notice of the location of any such office or agency and of any change of location thereof. Until otherwise designated from time to time by the Company in a notice to the Trustee, or specified as contemplated by Section 2.5, such office or agency for all of the above purposes shall be the office or agency of the Trustee. In case the Company shall fail to maintain any such office or agency in Hartford, Connecticut, or shall fail to give such notice of the location or of any change in the location thereof, presentations and demands may be made and notices may be served at the Principal Office of the Trustee.

In addition to any such office or agency, the Company may from time to time designate one or more offices or agencies outside Hartford, Connecticut, where the Debentures may be presented for registration of transfer and for exchange in the manner provided in this Indenture, and, the Company may from time to time rescind such designation, as the Company may deem desirable or expedient; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to

maintain any such office or agency in Hartford, Connecticut, for the purposes above mentioned. The Company will give to the Trustee prompt written notice of any such designation or rescission thereof.

Section 3.3. Appointments to Fill Vacancies in Trustee's Office. The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 6.9, a Trustee, so that there shall at all times be a Trustee hereunder.

Section 3.4. Provision as to Paying Agent.

(a) If the Company shall appoint a paying agent other than the Trustee, it will cause such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provision of this Section 3.4;

(1) that it will hold all sums held by it as such agent for the payment of the principal of and premium, if any, or interest, if any, on the Debentures (whether such sums have been paid to it by the Company or by any other obligor on the Debentures) in trust for the benefit of the holders of the Debentures;

(2) that it will give the Trustee prompt written notice of any failure by the Company (or by any other obligor on the Debentures) to make any payment of the principal of and premium, if any, or interest, if any, on the Debentures when the same shall be due and payable; and

(3) that it will, at any time during the continuance of any Event of Default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such paying agent.

(b) If the Company shall act as its own paying agent, it will, on or before each due date of the principal of and premium, if any, or interest, if any, on the Debentures, set aside, segregate and hold in trust for the benefit of the holders of the Debentures a sum sufficient to pay such principal, premium or interest so becoming due and will notify the Trustee in writing of any failure to take such action and of any failure by the Company (or by any other obligor under the Debentures) to make any payment of the principal of and premium, if any, or interest, if any, on the Debentures when the same shall become due and payable.

Whenever the Company shall have one or more paying agents for the Debentures, it will, on or prior to each due date of the principal of and premium, if any, or interest, if any, on the Debentures, deposit with a paying agent a sum sufficient to pay the principal, premium or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled thereto and (unless such paying agent is the Trustee) the Company shall promptly notify the Trustee in writing of its action or failure to act.

(c) Anything in this Section 3.4 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge with respect to the Debentures, or for any other reason pay, or

direct any paying agent to pay to the Trustee all sums held in trust by the Company or any such paying agent, such sums to be held by the Trustee upon the trusts herein contained.

(d) Anything in this Section 3.4 to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section 3.4 is subject to Sections 12.3 and 12.4.

Section 3.5. Certificate to Trustee. The Company will deliver to the Trustee on or before 120 days after the end of each fiscal year, so long as Debentures are outstanding hereunder, a Certificate stating that in the course of the performance by the signers of their duties as officers of the Company they would normally have knowledge of any default during such fiscal year by the Company in the performance of any covenants contained herein, stating whether or not they have knowledge of any such default and, if so, specifying each such default of which the signers have knowledge and the nature and status thereof. The Trustee shall provide a copy of such Certificate to any collateral manager for a securitized pool that owns any of the Capital Securities upon request by or on behalf of such manager.

Section 3.6. Additional Sums. If and for so long as the Trust is the holder of all Debentures and the Trust is required to pay any additional taxes, duties, assessments or other governmental charges as a result of a Tax Event, the Company will pay such additional amounts ("Additional Sums") on the Debentures as shall be required so that the net amounts received and retained by the Trust after paying taxes, duties, assessments or other governmental charges will be equal to the amounts the Trust would have received if no such taxes, duties, assessments or other governmental charges had been imposed. Whenever in this Indenture or the Debentures there is a reference in any context to the payment of principal of or interest on the Debentures, such mention shall be deemed to include mention of payments of the Additional Sums provided for in this paragraph to the extent that, in such context, Additional Sums are, were or would be payable in respect thereof pursuant to the provisions of this paragraph and express mention of the payment of Additional Sums (if applicable) in any provisions hereof shall not be construed as excluding Additional Sums in those provisions hereof where such express mention is not made; provided, however, that the deferral of the payment of interest during an Extension Period pursuant to Section 2.11 shall not defer the payment of any Additional Sums that may be due and payable.

Section 3.7. Compliance with Consolidation Provisions. The Company will not, while any of the Debentures remain outstanding, consolidate with, or merge into, or merge into itself, or sell or convey all or substantially all of its property to any other Person unless the provisions of Article XI hereof are complied with.

Section 3.8. Limitation on Dividends. If Debentures are initially issued to the Trust or a trustee of such trust in connection with the issuance of Trust Securities by the Trust (regardless of whether Debentures continue to be held by such Trust) and (i) there shall have occurred and be continuing an Event of Default, (ii) the Company shall be in default with respect to its payment of any obligations under the Capital Securities Guarantee, or (iii) the Company shall have given notice of its election to defer payments of interest on the Debentures by extending the interest payment period as provided herein and such period, or any extension thereof, shall be continuing, then the Company shall not, and shall not allow any Affiliate of the Company to, (x) declare or pay any dividends or distributions on, or

redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Company's capital stock or its Affiliates' capital stock (other than payments of dividends or distributions to the Company) or make any guarantee payments with respect to the foregoing or (y) make any payment of principal of or interest or premium, if any, on or repay, repurchase or redeem any debt securities of the Company or any Affiliate that rank pari passu in all respects with or junior in interest to the Debentures (other than, with respect to clauses (x) and (y) above, (1) repurchases, redemptions or other acquisitions of shares of capital stock of the Company in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of one or more employees, officers, directors or consultants, in connection with a dividend reinvestment or stockholder stock purchase plan or in connection with the issuance of capital stock of the Company (or securities convertible into or exercisable for such capital stock) as consideration in an acquisition transaction entered into prior to the applicable Extension Period, if any, (2) as a result of any exchange or conversion of any class or series of the Company's capital stock (or any capital stock of a subsidiary of the Company) for any class or series of the Company's capital stock or of any class or series of the Company's indebtedness for any class or series of the Company's capital stock, (3) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (4) any declaration of a dividend in connection with any stockholders' rights plan, or the issuance of rights, stock or other property under any stockholders' rights plan, or the redemption or repurchase of rights pursuant thereto, (5) any dividend in the form of stock, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks pari passu with or junior to such stock and any cash payments in lieu of fractional shares issued in connection therewith, or (6) payments under the Capital Securities Guarantee).

Section 3.9. Covenants as to the Trust. For so long as the Trust Securities remain outstanding, the Company shall maintain 100% ownership of the Common Securities; provided, however, that any permitted successor of the Company under this Indenture may succeed to the Company's ownership of such Common Securities. The Company, as owner of the Common Securities, shall, except in connection with a distribution of Debentures to the holders of Trust Securities in liquidation of the Trust, the redemption of all of the Trust Securities or certain mergers, consolidations or amalgamations, each as permitted by the Declaration, take all steps necessary for the Company to cause the Trust (a) to remain a statutory trust, (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes, and (c) to cause each holder of Trust Securities to be treated as owning an undivided beneficial interest in the Debentures.

Section 3.10. Additional Junior Indebtedness. The Company shall not, and it shall not cause or permit any Affiliate of the Company to, incur, issue or be obligated on any Additional Junior Indebtedness, either directly or indirectly, by way of guarantee, suretyship or otherwise, other than: (i) Additional Junior Indebtedness that, by its terms, is expressly stated to be either junior and subordinate or pari passu in all respects to the Debentures, and (ii) Additional Junior Indebtedness of which the Company has notified (and, if then required under the applicable guidelines of the regulating entity, has received approval from) the Federal Reserve, if the Company is a bank holding company, or the OTS, if the Company is a savings and loan holding company.

ARTICLE IV.
SECURITYHOLDERS' LISTS AND REPORTS
BY THE COMPANY AND THE TRUSTEE

Section 4.1. Securityholders' Lists. The Company covenants and agrees that it will furnish or caused to be furnished to the Trustee:

(a) on each regular record date for the Debentures, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Securityholders of the Debentures as of such record date; and

(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

except that no such lists need be furnished under this Section 4.1 so long as the Trustee is in possession thereof by reason of its acting as Debenture registrar.

Section 4.2. Preservation and Disclosure of Lists.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of Debentures (1) contained in the most recent list furnished to it as provided in Section 4.1 or (2) received by it in the capacity of Debentures registrar (if so acting) hereunder. The Trustee may destroy any list furnished to it as provided in Section 4.1 upon receipt of a new list so furnished.

(b) In case three or more holders of Debentures (hereinafter referred to as "applicants") apply in writing to the Trustee and furnish to the Trustee reasonable proof that each such applicant has owned a Debenture for a period of at least 6 months preceding the date of such application, and such application states that the applicants desire to communicate with other holders of Debentures with respect to their rights under this Indenture or under such Debentures and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall within 5 Business Days after the receipt of such application, at its election, either:

(1) afford such applicants access to the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section 4.2, or

(2) inform such applicants as to the approximate number of holders of Debentures whose names and addresses appear in the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section 4.2, and as to the approximate cost of mailing to such Securityholders the form of proxy or other communication, if any, specified in such application.

If the Trustee shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each Securityholder whose name and address appear in the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section 4.2 a copy of the form of proxy or other communication which is specified in such request with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing, unless within five days after such tender, the Trustee shall mail to such applicants and file with the Securities and Exchange Commission, if permitted or required by applicable law, together with a copy of the material to be mailed, a written statement to the effect that, in the opinion of the Trustee, such mailing would be contrary to the best interests of the holders of all Debentures, as the case may be, or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If said Commission, as permitted or required by applicable law, after opportunity for a hearing upon the objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections or if, after the entry of an order sustaining one or more of such objections, said Commission shall find, after notice and opportunity for hearing, that all the objections so sustained have been met and shall enter an order so declaring, the Trustee shall mail copies of such material to all such Securityholders with reasonable promptness after the entry of such order and the renewal of such tender; otherwise the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

(c) Each and every holder of Debentures, by receiving and holding the same, agrees with Company and the Trustee that neither the Company nor the Trustee nor any paying agent shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the holders of Debentures in accordance with the provisions of subsection (b) of this Section 4.2, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under said subsection (b).

ARTICLE V.
REMEDIES OF THE TRUSTEE AND SECURITYHOLDERS
UPON AN EVENT OF DEFAULT

Section 5.1. Events of Default. "Event of Default" wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) the Company defaults in the payment of any interest upon any Debenture when it becomes due and payable, and fails to cure such default for a period of 30 days; provided, however, that a valid extension of an interest payment period by the Company in accordance with the terms of this Indenture shall not constitute a default in the payment of interest for this purpose; or

(b) the Company defaults in the payment of all or any part of the principal of (or premium, if any, on) any Debentures as and when the same shall become due and payable either at maturity, upon redemption, by declaration of acceleration or otherwise; or

(c) the Company defaults in the performance of, or breaches, any of its covenants or agreements in this Indenture or in the terms of the Debentures established as contemplated in this Indenture (other than a covenant or agreement a default in whose performance or whose breach is elsewhere in this Section specifically dealt with), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the holders of at least 25% in aggregate principal amount of the Outstanding Debentures, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(d) a court of competent jurisdiction shall enter a decree or order for relief in respect of the Company in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of 90 consecutive days; or

(e) the Company shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Company or of any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due; or

(f) the Trust shall have voluntarily or involuntarily liquidated, dissolved, wound-up its business or otherwise terminated its existence except in connection with (i) the distribution of the Debentures to holders of such Trust Securities in liquidation of their interests in the Trust, (ii) the redemption of all of the outstanding Trust Securities or (iii) certain mergers, consolidations or amalgamations, each as permitted by the Declaration.

If an Event of Default occurs and is continuing with respect to the Debentures, then, and in each and every such case, unless the principal of the Debentures shall have already become due and payable, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Debentures then Outstanding hereunder, by notice in writing to the Company (and to the Trustee if given by Securityholders), may declare the entire principal of the Debentures and the interest accrued thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable.

The foregoing provisions, however, are subject to the condition that if, at any time after the principal of the Debentures shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to

pay all matured installments of interest upon all the Debentures and the principal of and premium, if any, on the Debentures which shall have become due otherwise than by acceleration (with interest upon such principal and premium, if any, and Additional Interest) and such amount as shall be sufficient to cover reasonable compensation to the Trustee and each predecessor Trustee, their respective agents, attorneys and counsel, and all other amounts due to the Trustee pursuant to Section 6.6, and if any and all Events of Default under this Indenture, other than the non-payment of the principal of or premium, if any, on Debentures which shall have become due by acceleration, shall have been cured, waived or otherwise remedied as provided herein -- then and in every such case the holders of a majority in aggregate principal amount of the Debentures then outstanding, by written notice to the Company and to the Trustee, may waive all defaults and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the Trustee and the holders of the Debentures shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Trustee and the holders of the Debentures shall continue as though no such proceeding had been taken.

Section 5.2. Payment of Debentures on Default, Suit Therefor. The Company covenants that upon the occurrence of an Event of Default pursuant to Section 5.1(a) or Section 5.1(b) then, upon demand of the Trustee, the Company will pay to the Trustee, for the benefit of the holders of the Debentures the whole amount that then shall have become due and payable on all Debentures for principal and premium, if any, or interest, or both, as the case may be, with Additional Interest accrued on the Debentures (to the extent that payment of such interest is enforceable under applicable law and, if the Debentures are held by the Trust or a trustee of such Trust, without duplication of any other amounts paid by the Trust or a trustee in respect thereof); and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Trustee, its agents, attorneys and counsel, and any other amounts due to the Trustee under Section 6.6. In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or any other obligor on such Debentures and collect in the manner provided by law out of the property of the Company or any other obligor on such Debentures wherever situated the moneys adjudged or decreed to be payable.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Debentures under Bankruptcy Law, or in case a receiver or trustee shall have been appointed for the property of the Company or such other obligor, or in the case of any other similar judicial proceedings relative to the Company or other obligor upon the Debentures, or to the creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of the Debentures

shall then be due and payable as therein expressed or by declaration of acceleration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 5.2, shall be entitled and empowered, by intervention in such proceedings or otherwise,

(i) to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Debentures and, in case of any judicial proceedings,

(ii) to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for reasonable compensation to the Trustee and each predecessor Trustee, and their respective agents, attorneys and counsel, and for reimbursement of all other amounts due to the Trustee under Section 6.6), and of the Securityholders allowed in such judicial proceedings relative to the Company or any other obligor on the Debentures, or to the creditors or property of the Company or such other obligor, and unless prohibited by applicable law and regulations, to vote on behalf of the holders of the Debentures in any election of a trustee or a standby trustee in arrangement, reorganization, liquidation or other bankruptcy or insolvency proceedings or Person performing similar functions in comparable proceedings,

(iii) to collect and receive any moneys or other property payable or deliverable on any such claims, and

(iv) to distribute the same after the deduction of its charges and expenses.

Any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of the Securityholders to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to the Securityholders, to pay to the Trustee such amounts as shall be sufficient to cover reasonable compensation to the Trustee, each predecessor Trustee and their respective agents, attorneys and counsel, and all other amounts due to the Trustee under Section 6.6.

Nothing herein contained shall be construed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Debentures or the rights of any holder thereof or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

All rights of action and of asserting claims under this Indenture, or under any of the Debentures, may be enforced by the Trustee without the possession of any of the Debentures, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall be for the ratable benefit of the holders of the Debentures.

In any proceedings brought by the Trustee (and also any proceedings involving the interpretation of any provision of this Indenture to which the

Trustee shall be a party), the Trustee shall be held to represent all the holders of the Debentures, and it shall not be necessary to make any holders of the Debentures parties to any such proceedings.

Section 5.3. Application of Moneys Collected by Trustee. Any moneys collected by the Trustee pursuant to this Article V shall be applied in the following order, at the date or dates fixed by the Trustee for the distribution of such moneys, upon presentation of the several Debentures in respect of which moneys have been collected, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

First: To the payment of costs and expenses incurred by, and reasonable fees of, the Trustee, its agents, attorneys and counsel, and of all other amounts due to the Trustee under Section 6.6;

Second: To the payment of all Senior Indebtedness of the Company if and to the extent required by Article XV;

Third: To the payment of the amounts then due and unpaid upon Debentures for principal (and premium, if any), and interest on the Debentures, in respect of which or for the benefit of which money has been collected, ratably, without preference or priority of any kind, according to the amounts due on such Debentures for principal (and premium, if any) and interest, respectively; and

Fourth: The balance, if any, to the Company.

Section 5.4. Proceedings by Securityholders. No holder of any Debenture shall have any right to institute any suit, action or proceeding for any remedy hereunder, unless such holder previously shall have given to the Trustee written notice of an Event of Default with respect to the Debentures and unless the holders of not less than 25% in aggregate principal amount of the Debentures then Outstanding shall have given the Trustee a written request to institute such action, suit or proceeding and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred thereby, and the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action, suit or proceeding.

Notwithstanding any other provisions in this Indenture, however, the right of any holder of any Debenture to receive payment of the principal of, premium, if any, and interest, on such Debenture when due, or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the consent of such holder and by accepting a Debenture hereunder it is expressly understood, intended and covenanted by the taker and holder of every Debenture with every other such taker and holder and the Trustee, that no one or more holders of Debentures shall have any right in any manner whatsoever by virtue or by availing itself of any provision of this Indenture to affect, disturb or prejudice the rights of the holders of any other Debentures, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Debentures. For the protection and enforcement of the

provisions of this Section, each and every Securityholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Section 5.5. Proceedings by Trustee. In case of an Event of Default hereunder the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

Section 5.6. Remedies Cumulative and Continuing; Delay or Omission Not a Waiver. Except as otherwise provided in Section 2.6, all powers and remedies given by this Article V to the Trustee or to the Securityholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any other powers and remedies available to the Trustee or the holders of the Debentures, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture or otherwise established with respect to the Debentures, and no delay or omission of the Trustee or of any holder of any of the Debentures to exercise any right or power accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 5.4, every power and remedy given by this Article V or by law to the Trustee or to the Securityholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Securityholders.

No delay or omission of the Trustee or any Securityholder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to any Securityholder may be exercised from time to time, and as often as may be deemed expedient, by the Trustee (in accordance with its duties under Section 6.1 hereof) or by such holder, as the case may be.

Section 5.7. Direction of Proceedings and Waiver of Defaults by Majority of Securityholders. The holders of a majority in aggregate principal amount of the Debentures affected (voting as one class) at the time outstanding shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to such Debentures; provided, however, that (subject to the provisions of Section 6.1) the Trustee shall have the right to decline to follow any such direction if the Trustee shall determine that the action so directed would be unjustly prejudicial to the holders not taking part in such direction or if the Trustee being advised by counsel determines that the action or proceeding so directed may not lawfully be taken or if a Responsible Officer of the Trustee shall determine that the action or proceedings so directed would involve the Trustee in personal liability.

The holders of a majority in aggregate principal amount of the Debentures at the time outstanding may on behalf of the holders of all of the

Debentures waive (or modify any previously granted waiver of) any past default or Event of Default, and its consequences, except a default (a) in the payment of principal of, premium, if any, or interest on any of the Debentures, (b) in respect of covenants or provisions hereof which cannot be modified or amended without the consent of the holder of each Debenture affected, or (c) in respect of the covenants contained in Section 3.9; provided, however, that if the Debentures are held by the Trust or a trustee of such trust, such waiver or modification to such waiver shall not be effective until the holders of a majority in Liquidation Amount of Trust Securities of the Trust shall have consented to such waiver or modification to such waiver, provided, further, that if the consent of the holder of each outstanding Debenture is required, such waiver shall not be effective until each holder of the Trust Securities of the Trust shall have consented to such waiver. Upon any such waiver, the default covered thereby shall be deemed to be cured for all purposes of this Indenture and the Company, the Trustee and the holders of the Debentures shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon. Whenever any default or Event of Default hereunder shall have been waived as permitted by this Section, said default or Event of Default shall for all purposes of the Debentures and this Indenture be deemed to have been cured and to be not continuing.

Section 5.8. Notice of Defaults. The Trustee shall, within 90 days after the actual knowledge by a Responsible Officer of the Trustee of the occurrence of a default with respect to the Debentures, mail to all Securityholders, as the names and addresses of such holders appear upon the Debenture Register, notice of all defaults with respect to the Debentures known to the Trustee, unless such defaults shall have been cured before the giving of such notice (the term "defaults" for the purpose of this Section 5.8 being hereby defined to be the events specified in clauses (a), (b), (c), (d), (e) and (f) of Section 5.1, not including periods of grace, if any, provided for therein); provided, however, that, except in the case of default in the payment of the principal of, premium, if any, or interest on any of the Debentures, the Trustee shall be protected in withholding such notice if and so long as a Responsible Officer of the Trustee in good faith determines that the withholding of such notice is in the interests of the Securityholders.

Section 5.9. Undertaking to Pay Costs. All parties to this Indenture agree, and each holder of any Debenture by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; provided, however, that the provisions of this Section 5.9 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Securityholder, or group of Securityholders, holding in the aggregate more than 10% in principal amount of the Debentures outstanding, or to any suit instituted by any Securityholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Debenture against the Company on or after the same shall have become due and payable.

ARTICLE VI.
CONCERNING THE TRUSTEE

Section 6.1. Duties and Responsibilities of Trustee. With respect to the holders of Debentures issued hereunder, the Trustee, prior to the occurrence of an Event of Default with respect to the Debentures and after the curing or waiving of all Events of Default which may have occurred, with respect to the Debentures, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants shall be read into this Indenture against the Trustee. In case an Event of Default with respect to the Debentures has occurred (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(a) prior to the occurrence of an Event of Default with respect to Debentures and after the curing or waiving of all Events of Default which may have occurred;

(1) the duties and obligations of the Trustee with respect to Debentures shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations with respect to the Debentures as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but, in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture;

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith, in accordance with the direction of the Securityholders pursuant to Section 5.7, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of

its rights or powers, if there is ground for believing that the repayment of such funds or liability is not assured to it under the terms of this Indenture or indemnity satisfactory to the Trustee against such risk is not reasonably assured to it.

The Trustee shall provide the Company with written notice of the Interest Rate for each Distribution Period no later than the thirtieth (30th) Business Day of the relevant Distribution Period.

Section 6.2. Reliance on Documents, Opinions, etc. Except as otherwise provided in Section 6.1:

(a) the Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, note, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed), and any Board Resolution may be evidenced to the Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Company;

(c) the Trustee may consult with counsel of its selection and any advice or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(d) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders, pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby;

(e) the Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture; nothing contained herein shall, however, relieve the Trustee of the obligation, upon the occurrence of an Event of Default with respect to the Debentures (that has not been cured or waived) to exercise with respect to Debentures such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, debenture, coupon or other paper or document, unless requested in writing to do so by the holders of not less than a majority in aggregate principal amount of the outstanding Debentures affected thereby, provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of

the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such expense or liability as a condition to so proceeding;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents (including any Authenticating Agent) or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any such agent or attorney appointed by it with due care; and

(h) with the exceptions of defaults under Sections 5.1(a) or 5.1(b), the Trustee shall not be charged with knowledge of any Default or Event of Default with respect to the Debentures unless a written notice of such Default or Event of Default shall have been given to the Trustee by the Company or any other obligor on the Debentures or by any holder of the Debentures.

Section 6.3. No Responsibility for Recitals, etc. The recitals contained herein and in the Debentures (except in the certificate of authentication of the Trustee or the Authenticating Agent) shall be taken as the statements of the Company, and the Trustee and the Authenticating Agent assume no responsibility for the correctness of the same. The Trustee and the Authenticating Agent make no representations as to the validity or sufficiency of this Indenture or of the Debentures. The Trustee and the Authenticating Agent shall not be accountable for the use or application by the Company of any Debentures or the proceeds of any Debentures authenticated and delivered by the Trustee or the Authenticating Agent in conformity with the provisions of this Indenture.

Section 6.4. Trustee, Authenticating Agent, Paying Agents, Transfer Agents or Registrar May Own Debentures. The Trustee or any Authenticating Agent or any paying agent or any transfer agent or any Debenture registrar, in its individual or any other capacity, may become the owner or pledgee of Debentures with the same rights it would have if it were not Trustee, Authenticating Agent, paying agent, transfer agent or Debenture registrar.

Section 6.5. Moneys to be Held in Trust. Subject to the provisions of Section 12.4, all moneys received by the Trustee or any paying agent shall, until used or applied as herein provided, be held in trust for the purpose for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee and any paying agent shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company. So long as no Event of Default shall have occurred and be continuing, all interest allowed on any such moneys shall be paid from time to time upon the written order of the Company, signed by the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer, a Managing Director, a Vice President, the Treasurer or an Assistant Treasurer of the Company.

Section 6.6. Compensation and Expenses of Trustee. The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, such compensation as shall be agreed to in writing between the Company and the Trustee (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust), and the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the

Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all Persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or willful misconduct. The Company also covenants to indemnify each of the Trustee or any predecessor Trustee (and its officers, agents, directors and employees) for, and to hold it harmless against, any and all loss, damage, claim, liability or expense including taxes (other than taxes based on the income of the Trustee) incurred without negligence or willful misconduct on the part of the Trustee and arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability. The obligations of the Company under this Section 6.6 to compensate and indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder. Such additional indebtedness shall be secured by a lien prior to that of the Debentures upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Debentures.

Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee incurs expenses or renders services in connection with an Event of Default specified in Sections 5.1(d), 5.1(e) or 5.1(f), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the resignation or removal of the Trustee and the defeasance or other termination of this Indenture.

Notwithstanding anything in this Indenture or any Debenture to the contrary, the Trustee shall have no obligation whatsoever to advance funds to pay any principal of or interest on or other amounts with respect to the Debentures or otherwise advance funds to or on behalf of the Company.

Section 6.7. Officers' Certificate as Evidence. Except as otherwise provided in Sections 6.1 and 6.2, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such certificate, in the absence of negligence or willful misconduct on the part of the Trustee, shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.

Section 6.8. Eligibility of Trustee. The Trustee hereunder shall at all times be a corporation organized and doing business under the laws of the United States of America or any state or territory thereof or of the District of Columbia or a corporation or other Person authorized under such laws to exercise corporate trust powers, having (or whose obligations under this Indenture are guaranteed by an affiliate having) a combined capital and surplus of at least 50 million U.S. dollars (\$50,000,000.00) and subject to supervision or examination by federal, state, territorial, or District of

Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 6.8 the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent records of condition so published.

The Company may not, nor may any Person directly or indirectly controlling, controlled by, or under common control with the Company, serve as Trustee.

In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 6.8, the Trustee shall resign immediately in the manner and with the effect specified in Section 6.9. If the Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner described by this Indenture.

Section 6.9. Resignation or Removal of Trustee.

(a) The Trustee, or any trustee or trustees hereafter appointed, may at any time resign by giving written notice of such resignation to the Company and by mailing notice thereof, at the Company's expense, to the holders of the Debentures at their addresses as they shall appear on the Debenture Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee or trustees by written instrument, in duplicate, executed by order of its Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor Trustee. If no successor Trustee shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of resignation to the affected Securityholders, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, or any Securityholder who has been a bona fide holder of a Debenture or Debentures for at least six months may, subject to the provisions of Section 5.9, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor Trustee.

(b) In case at any time any of the following shall occur --

(1) the Trustee shall fail to comply with the provisions of Section 6.8 after written request therefor by the Company or by any Securityholder who has been a bona fide holder of a Debenture or Debentures for at least 6 months, or

(2) the Trustee shall cease to be eligible in accordance with the provisions of Section 6.8 and shall fail to resign after written request therefor by the Company or by any such Securityholder, or

(3) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

-- then, in any such case, the Company may remove the Trustee and appoint a successor Trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor Trustee, or, subject to the provisions of Section 5.9, any Securityholder who has been a bona fide holder of a Debenture or Debentures for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint successor Trustee.

(c) Upon prior written notice to the Company and the Trustee, the holders of a majority in aggregate principal amount of the Debentures at the time outstanding may at any time remove the Trustee and nominate a successor Trustee, which shall be deemed appointed as successor Trustee unless within ten (10) Business Days after such nomination the Company objects thereto, in which case, or in the case of a failure by such holders to nominate a successor Trustee, the Trustee so removed or any Securityholder, upon the terms and conditions and otherwise as in subsection (a) of this Section 6.9 provided, may petition any court of competent jurisdiction for an appointment of a successor.

(d) Any resignation or removal of the Trustee and appointment of a successor Trustee pursuant to any of the provisions of this Section shall become effective upon acceptance of appointment by the successor Trustee as provided in Section 6.10.

Section 6.10. Acceptance by Successor Trustee. Any successor Trustee appointed as provided in Section 6.9 shall execute, acknowledge and deliver to the Company and to its predecessor Trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations with respect to the Debentures of its predecessor hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the written request of the Company or of the successor Trustee, the Trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of Section 6.6, execute and deliver an instrument transferring to such successor Trustee all the rights and powers of the Trustee so ceasing to act and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee thereunder. Upon request of any such successor Trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor Trustee all such rights and powers. Any Trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such Trustee to secure any amounts then due it pursuant to the provisions of Section 6.6.

If a successor Trustee is appointed, the Company, the retiring Trustee and the successor Trustee shall execute and deliver an indenture supplemental hereto which shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Debentures as to which the predecessor Trustee is not retiring shall continue to be vested in the predecessor Trustee, and shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the Trust hereunder by more than one Trustee, it being

understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be Trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee.

No successor Trustee shall accept appointment as provided in this Section unless at the time of such acceptance such successor Trustee shall be eligible under the provisions of Section 6.8.

In no event shall a retiring Trustee be liable for the acts or omissions of any successor Trustee hereunder.

Upon acceptance of appointment by a successor Trustee as provided in this Section 6.10, the Company shall mail notice of the succession of such Trustee hereunder to the holders of Debentures at their addresses as they shall appear on the Debenture Register. If the Company fails to mail such notice within 10 Business Days after the acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Company.

Section 6.11. Succession by Merger, etc. Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided such corporation shall be otherwise eligible and qualified under this Article.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture any of the Debentures shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor Trustee, and deliver such Debentures so authenticated; and in case at that time any of the Debentures shall not have been authenticated, any successor to the Trustee may authenticate such Debentures either in the name of any predecessor hereunder or in the name of the successor Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Debentures or in this Indenture provided that the certificate of the Trustee shall have; provided, however, that the right to adopt the certificate of authentication of any predecessor Trustee or authenticate Debentures in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

Section 6.12. Authenticating Agents. There may be one or more Authenticating Agents appointed by the Trustee upon the request of the Company with power to act on its behalf and subject to its direction in the authentication and delivery of Debentures issued upon exchange or registration of transfer thereof as fully to all intents and purposes as though any such Authenticating Agent had been expressly authorized to authenticate and deliver Debentures; provided, however, that the Trustee shall have no liability to the Company for any acts or omissions of the Authenticating Agent with respect to the authentication and delivery of Debentures. Any such Authenticating Agent shall at all times be a corporation organized and doing business under the laws of the United States or of any state or territory thereof or of the

District of Columbia authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of at least \$50,000,000.00 and being subject to supervision or examination by federal, state, territorial or District of Columbia authority. If such corporation publishes reports of condition at least annually pursuant to law or the requirements of such authority, then for the purposes of this Section 6.12 the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect herein specified in this Section.

Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of any Authenticating Agent, shall be the successor of such Authenticating Agent hereunder if such successor corporation is otherwise eligible under this Section 6.12 without the execution or filing of any paper or any further act on the part of the parties hereto or such Authenticating Agent.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any Authenticating Agent with respect to the Debentures by giving written notice of termination to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section 6.12, the Trustee may, and upon the request of the Company shall, promptly appoint a successor Authenticating Agent eligible under this Section 6.12, shall give written notice of such appointment to the Company and shall mail notice of such appointment to all holders of Debentures as the names and addresses of such holders appear on the Debenture Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all rights, powers, duties and responsibilities with respect to the Debentures of its predecessor hereunder, with like effect as if originally named as Authenticating Agent herein.

The Company agrees to pay to any Authenticating Agent from time to time reasonable compensation for its services. Any Authenticating Agent shall have no responsibility or liability for any action taken by it as such in accordance with the directions of the Trustee.

ARTICLE VII.
CONCERNING THE SECURITYHOLDERS

Section 7.1. Action by Securityholders. Whenever in this Indenture it is provided that the holders of a specified percentage in aggregate principal amount of the Debentures may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action) the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by such Securityholders in person or by agent or proxy appointed in writing, or (b) by the record of such holders of Debentures voting in favor thereof at any

meeting of such Securityholders duly called and held in accordance with the provisions of Article VIII, or (c) by a combination of such instrument or instruments and any such record of such a meeting of such Securityholders or (d) by any other method the Trustee deems satisfactory.

If the Company shall solicit from the Securityholders any request, demand, authorization, direction, notice, consent, waiver or other action or revocation of the same, the Company may, at its option, as evidenced by an Officers' Certificate, fix in advance a record date for such Debentures for the determination of Securityholders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other action or revocation of the same, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action or revocation of the same may be given before or after the record date, but only the Securityholders of record at the close of business on the record date shall be deemed to be Securityholders for the purposes of determining whether Securityholders of the requisite proportion of outstanding Debentures have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other action or revocation of the same, and for that purpose the outstanding Debentures shall be computed as of the record date; provided, however, that no such authorization, agreement or consent by such Securityholders on the record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six (6) months after the record date.

Section 7.2. Proof of Execution by Securityholders. Subject to the provisions of Section 6.1, 6.2 and 8.5, proof of the execution of any instrument by a Securityholder or his agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The ownership of Debentures shall be proved by the Debenture Register or by a certificate of the Debenture registrar. The Trustee may require such additional proof of any matter referred to in this Section as it shall deem necessary.

The record of any Securityholders' meeting shall be proved in the manner provided in Section 8.6.

Section 7.3. Who Are Deemed Absolute Owners. Prior to due presentment for registration or transfer of any Debenture, the Company, the Trustee, any Authenticating Agent, any paying agent, any transfer agent and any Debenture registrar may deem the Person in whose name such Debenture shall be registered upon the Debenture Register to be, and may treat him as, the absolute owner of such Debenture (whether or not such Debenture shall be overdue) for the purpose of receiving payment of or on account of the principal of, premium, if any, and interest on such Debenture and for all other purposes; and neither the Company nor the Trustee nor any Authenticating Agent nor any paying agent nor any transfer agent nor any Debenture registrar shall be affected by any notice to the contrary. All such payments so made to any holder for the time being or upon his order shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Debenture.

Section 7.4. Debentures Not Outstanding. In determining whether the holders of the requisite aggregate principal amount of Debentures have concurred in any direction, consent or waiver under this Indenture, Debentures

which are owned by the Company or any other obligor on the Debentures or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any other obligor on the Debentures shall be disregarded and deemed not to be outstanding for the purpose of any such determination; provided, however, that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only Debentures which a Responsible Officer of the Trustee actually knows are so owned shall be so disregarded. Debentures so owned which have been pledged in good faith may be regarded as outstanding for the purposes of this Section 7.4 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Debentures and that the pledgee is not the Company or any such other obligor or Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any such other obligor. In the case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Section 7.5. Revocation of Consents; Future Holders Bound. At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 7.1, of the taking of any action by the holders of the percentage in aggregate principal amount of the Debentures specified in this Indenture in connection with such action, any holder (in cases where no record date has been set pursuant to Section 7.1) or any holder as of an applicable record date (in cases where a record date has been set pursuant to Section 7.1) of a Debenture (or any Debenture issued in whole or in part in exchange or substitution therefor) the serial number of which is shown by the evidence to be included in the Debentures the holders of which have consented to such action may, by filing written notice with the Trustee at the Principal Office of the Trustee and upon proof of holding as provided in Section 7.2, revoke such action so far as concerns such Debenture (or so far as concerns the principal amount represented by any exchanged or substituted Debenture). Except as aforesaid any such action taken by the holder of any Debenture shall be conclusive and binding upon such holder and upon all future holders and owners of such Debenture, and of any Debenture issued in exchange or substitution therefor or on registration of transfer thereof, irrespective of whether or not any notation in regard thereto is made upon such Debenture or any Debenture issued in exchange or substitution therefor.

ARTICLE VIII.
SECURITYHOLDERS' MEETINGS

Section 8.1. Purposes of Meetings. A meeting of Securityholders may be called at any time and from time to time pursuant to the provisions of this Article VIII for any of the following purposes:

(a) to give any notice to the Company or to the Trustee, or to give any directions to the Trustee, or to consent to the waiving of any default hereunder and its consequences, or to take any other action authorized to be taken by Securityholders pursuant to any of the provisions of Article V;

(b) to remove the Trustee and nominate a successor trustee pursuant to the provisions of Article VI;

(c) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 9.2; or

(d) to take any other action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of such Debentures under any other provision of this Indenture or under applicable law.

Section 8.2. Call of Meetings by Trustee. The Trustee may at any time call a meeting of Securityholders to take any action specified in Section 8.1, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Securityholders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be mailed to holders of Debentures affected at their addresses as they shall appear on the Debentures Register and, if the Company is not a holder of Debentures, to the Company. Such notice shall be mailed not less than 20 nor more than 180 days prior to the date fixed for the meeting.

Section 8.3. Call of Meetings by Company or Securityholders. In case at any time the Company pursuant to a Board Resolution, or the holders of at least 10% in aggregate principal amount of the Debentures, as the case may be, then outstanding, shall have requested the Trustee to call a meeting of Securityholders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within 20 days after receipt of such request, then the Company or such Securityholders may determine the time and the place for such meeting and may call such meeting to take any action authorized in Section 8.1, by mailing notice thereof as provided in Section 8.2.

Section 8.4. Qualifications for Voting. To be entitled to vote at any meeting of Securityholders a Person shall (a) be a holder of one or more Debentures with respect to which the meeting is being held or (b) a Person appointed by an instrument in writing as proxy by a holder of one or more such Debentures. The only Persons who shall be entitled to be present or to speak at any meeting of Securityholders shall be the Persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

Section 8.5. Regulations. Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Securityholders, in regard to proof of the holding of Debentures and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Securityholders as provided in Section 8.3, in which case the Company or the Securityholders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by majority vote of the meeting.

Subject to the provisions of Section 7.4, at any meeting each holder of Debentures with respect to which such meeting is being held or proxy therefor shall be entitled to one vote for each \$1,000.00 principal amount of Debentures held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Debenture challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Debentures held by him or instruments in writing as aforesaid duly designating him as the Person to vote on behalf of other Securityholders. Any meeting of Securityholders duly called pursuant to the provisions of Section 8.2 or 8.3 may be adjourned from time to time by a majority of those present, whether or not constituting a quorum, and the meeting may be held as so adjourned without further notice.

Section 8.6. Voting. The vote upon any resolution submitted to any meeting of holders of Debentures with respect to which such meeting is being held shall be by written ballots on which shall be subscribed the signatures of such holders or of their representatives by proxy and the serial number or numbers of the Debentures held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in triplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Securityholders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more Persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 8.2. The record shall show the serial numbers of the Debentures voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

Section 8.7. Quorum; Actions. The Persons entitled to vote a majority in principal amount of the Debentures then outstanding shall constitute a quorum for a meeting of Securityholders; provided, however, that if any action is to be taken at such meeting with respect to a consent, waiver, request, demand, notice, authorization, direction or other action which may be given by the holders of not less than a specified percentage in principal amount of the Debentures then outstanding, the Persons holding or representing such specified percentage in principal amount of the Debentures then outstanding will constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of Securityholders, be dissolved. In any other case the meeting may be adjourned for a period of not less than 10 days as determined by the permanent chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days as determined by the permanent chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in Section 8.2, except that such notice need be given only

once not less than 5 days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the Debentures then outstanding which shall constitute a quorum.

Except as limited by the provisos in the first paragraph of Section 9.2, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted by the affirmative vote of the holders of a majority in principal amount of the Debentures then outstanding; provided, however, that, except as limited by the provisos in the first paragraph of Section 9.2, any resolution with respect to any consent, waiver, request, demand, notice, authorization, direction or other action which this Indenture expressly provides may be given by the holders of not less than a specified percentage in principal amount of the Debentures then outstanding may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid only by the affirmative vote of the holders of a not less than such specified percentage in principal amount of the Debentures then outstanding.

Any resolution passed or decision taken at any meeting of holders of Debentures duly held in accordance with this Section shall be binding on all the Securityholders, whether or not present or represented at the meeting.

ARTICLE IX. SUPPLEMENTAL INDENTURES

Section 9.1. Supplemental Indentures without Consent of Securityholders. The Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto, without the consent of the Securityholders, for one or more of the following purposes:

(a) to evidence the succession of another Person to the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Company, pursuant to Article XI hereof;

(b) to add to the covenants of the Company such further covenants, restrictions or conditions for the protection of the holders of Debentures as the Board of Directors shall consider to be for the protection of the holders of such Debentures, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions a default or an Event of Default permitting the enforcement of all or any of the remedies provided in this Indenture as herein set forth; provided, however, that in respect of any such additional covenant restriction or condition such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default;

(c) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions

arising under this Indenture; provided that any such action shall not materially adversely affect the interests of the holders of the Debentures;

(d) to add to, delete from, or revise the terms of Debentures, including, without limitation, any terms relating to the issuance, exchange, registration or transfer of Debentures, including to provide for transfer procedures and restrictions substantially similar to those applicable to the Capital Securities as required by Section 2.5 (for purposes of assuring that no registration of Debentures is required under the Securities Act); provided however, that any such action shall not adversely affect the interests of the holders of the Debentures then outstanding (it being understood, for purposes of this proviso, that transfer restrictions on Debentures substantially similar to those that were applicable to Capital Securities shall not be deemed to materially adversely affect the holders of the Debentures);

(e) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Debentures and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee;

(f) to make any change (other than as elsewhere provided in this paragraph) that does not adversely affect the rights of any Securityholder in any material respect; or

(g) to provide for the issuance of and establish the form and terms and conditions of the Debentures, to establish the form of any certifications required to be furnished pursuant to the terms of this Indenture or the Debentures, or to add to the rights of the holders of Debentures.

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer and assignment of any property thereunder, but the Trustee shall not be obligated to, but may in its discretion, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section 9.1 may be executed by the Company and the Trustee without the consent of the holders of any of the Debentures at the time outstanding, notwithstanding any of the provisions of Section 9.2.

Section 9.2. Supplemental Indentures with Consent of Securityholders. With the consent (evidenced as provided in Section 7.1) of the holders of not less than a majority in aggregate principal amount of the Debentures at the time outstanding affected by such supplemental indenture (voting as a class), the Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or of modifying in any manner the rights of the holders of the Debentures; provided, however, that no such supplemental indenture shall without the consent of the holders of each Debenture then outstanding and affected thereby (i) change the fixed maturity of any Debenture, or reduce

the principal amount thereof or any premium thereon, or reduce the rate or extend the time of payment of interest thereon, or reduce any amount payable on redemption thereof or make the principal thereof or any interest or premium thereon payable in any coin or currency other than that provided in the Debentures, or impair or affect the right of any Securityholder to institute suit for payment thereof or impair the right of repayment, if any, at the option of the holder, or (ii) reduce the aforesaid percentage of Debentures the holders of which are required to consent to any such supplemental indenture; provided further, however, that if the Debentures are held by a trust or a trustee of such trust, such supplemental indenture shall not be effective until the holders of a majority in Liquidation Amount of Trust Securities shall have consented to such supplemental indenture; provided further, however, that if the consent of the Securityholder of each outstanding Debenture is required, such supplemental indenture shall not be effective until each holder of the Trust Securities shall have consented to such supplemental indenture.

Upon the request of the Company accompanied by a Board Resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Securityholders as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Trustee shall transmit by mail, first class postage prepaid, a notice, prepared by the Company, setting forth in general terms the substance of such supplemental indenture, to the Securityholders as their names and addresses appear upon the Debenture Register. Any failure of the Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

It shall not be necessary for the consent of the Securityholders under this Section 9.2 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Section 9.3. Effect of Supplemental Indentures. Upon the execution of any supplemental indenture pursuant to the provisions of this Article IX, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Debentures shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.4. Notation on Debentures. Debentures authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article IX may bear a notation as to any matter provided for in such supplemental indenture. If the Company or the Trustee shall so determine, new Debentures so modified as to conform, in the opinion of the Board of Directors of the Company, to any modification of this Indenture contained in any such supplemental indenture may be prepared and executed by

the Company, authenticated by the Trustee or the Authenticating Agent and delivered in exchange for the Debentures then outstanding.

Section 9.5. Evidence of Compliance of Supplemental Indenture to be Furnished to Trustee. The Trustee, subject to the provisions of Sections 6.1 and 6.2, shall, in addition to the documents required by Section 14.6, receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article IX. The Trustee shall receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to this Article IX is authorized or permitted by, and conforms to, the terms of this Article IX and that it is proper for the Trustee under the provisions of this Article IX to join in the execution thereof

ARTICLE X.
REDEMPTION OF SECURITIES

Section 10.1. Optional Redemption. The Company shall have the right (subject to the receipt by the Company of prior approval (i) if the Company is a bank holding company, from the Federal Reserve, if then required under applicable capital guidelines or policies of the Federal Reserve or (ii) if the Company is a savings and loan holding company, from the OTS if then required under applicable capital guidelines or policies of the OTS), to redeem the Debentures, in whole or in part, but in all cases in a principal amount with integral multiples of \$1,000.00, on any Interest Payment Date on or after October 1, 2008, at the Redemption Price.

Section 10.2. Special Event Redemption. If a Special Event shall occur and be continuing, the Company shall have the right (subject to the receipt by the Company of prior approval (i) if the Company is a bank holding company, from the Federal Reserve if then required under applicable capital guidelines or policies of the Federal Reserve or (ii) if the Company is a savings and loan holding company, from the OTS if then required under applicable capital guidelines or policies of the OTS) to redeem the Debentures in whole, but not in part, at any Interest Payment Date, within 120 days following the occurrence of such Special Event at the Redemption Price.

Section 10.3. Notice of Redemption; Selection of Debentures. In case the Company shall desire to exercise the right to redeem all, or, as the case may be, any part of the Debentures, it shall cause to be mailed a notice of such redemption at least 30 and not more than 60 days prior to the Redemption Date to the holders of Debentures so to be redeemed as a whole or in part at their last addresses as the same appear on the Debenture Register. Such mailing shall be by first class mail. The notice if mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the holder of any Debenture designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Debenture.

Each such notice of redemption shall specify the CUSIP number, if any, of the Debentures to be redeemed, the Redemption Date, the Redemption Price at which Debentures are to be redeemed, the place or places of payment,

that payment will be made upon presentation and surrender of such Debentures, that interest accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon or on the portions thereof to be redeemed will cease to accrue. In the event that any date on which the Redemption Price is payable is not a Business Day, then payment of the Redemption Price payable on such date shall be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on the date such payment was originally payable. If less than all the Debentures are to be redeemed, the notice of redemption shall specify the number of the Debentures to be redeemed. In case the Debentures are to be redeemed in part only, the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Debenture, a new Debenture or Debentures in principal amount equal to the unredeemed portion thereof will be issued.

Prior to 10:00 a.m. New York City time on the Redemption Date, the Company will deposit with the Trustee or with one or more paying agents an amount of money sufficient to redeem on the Redemption Date all the Debentures so called for redemption at the appropriate Redemption Price, together with accrued interest to the Redemption Date.

If all, or less than all, the Debentures are to be redeemed, the Company will give the Trustee notice not less than 45 nor more than 60 days, respectively, prior to the Redemption Date, as to the aggregate principal amount of Debentures to be redeemed and the Trustee shall select, in such manner as in its sole discretion it shall deem appropriate and fair, the Debentures or portions thereof (in integral multiples of \$1,000.00) to be redeemed.

Section 10.4. Payment of Debentures Called for Redemption. If notice of redemption has been given as provided in Section 10.3, the Debentures or portions of Debentures with respect to which such notice has been given shall become due and payable on the Redemption Date and at the place or places stated in such notice at the applicable Redemption Price, together with interest accrued to the Redemption Date, and on and after said date (unless the Company shall default in the payment of such Debentures at the Redemption Price, together with interest accrued to said date) interest on the Debentures or portions of Debentures so called for redemption shall cease to accrue. On presentation and surrender of such Debentures at a place of payment specified in said notice, such Debentures or the specified portions thereof shall be paid and redeemed by the Company at the applicable Redemption Price, together with interest accrued thereon to the Redemption Date.

Upon presentation of any Debenture redeemed in part only, the Company shall execute and the Trustee shall authenticate and make available for delivery to the holder thereof, at the expense of the Company, a new Debenture or Debentures of authorized denominations, in principal amount equal to the unredeemed portion of the Debenture so presented.

ARTICLE XI.
CONSOLIDATION, MERGER, SALE, CONVEYANCE AND LEASE

Section 11.1. Company May Consolidate, etc., on Certain Terms. Nothing contained in this Indenture or in the Debentures shall prevent any consolidation or merger of the Company with or into any other Person (whether or not affiliated with the Company) or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any sale, conveyance, transfer or other disposition of the property or capital stock of the Company or its successor or successors as an entirety, or substantially as an entirety, to any other Person (whether or not affiliated with the Company, or its successor or successors) authorized to acquire and operate the same; provided, however, that the Company hereby covenants and agrees that, upon any such consolidation, merger (where the Company is not the surviving corporation), sale, conveyance, transfer or other disposition, the due and punctual payment of the principal of (and premium, if any) and interest on all of the Debentures in accordance with their terms, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of this Indenture to be kept or performed by the Company, shall be expressly assumed by supplemental indenture satisfactory in form to the Trustee executed and delivered to the Trustee by the entity formed by such consolidation, or into which the Company shall have merged, or by the entity which shall have acquired such property.

Section 11.2. Successor Entity to be Substituted. In case of any such consolidation, merger, sale, conveyance, transfer or other disposition by the successor entity, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of and premium if any, and interest on all of the Debentures and the due and punctual performance and observance of all of the covenants and conditions of this Indenture to be performed or observed by the Company, such successor entity shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the Company, and thereupon the predecessor entity shall be relieved of any further liability or obligation hereunder or upon the Debentures. Such successor entity thereupon may cause to be signed, and may issue in its own name, any or all of the Debentures issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee or the Authenticating Agent; and, upon the order of such successor entity instead of the Company and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee or the Authenticating Agent shall authenticate and deliver any Debentures which previously shall have been signed and delivered by the officers of the Company, to the Trustee or the Authenticating Agent for authentication, and any Debentures which such successor entity thereafter shall cause to be signed and delivered to the Trustee or the Authenticating Agent for that purpose. All the Debentures so issued shall in all respects have the same legal rank and benefit under this Indenture as the Debentures theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Debentures had been issued at the date of the execution hereof.

Section 11.3. Opinion of Counsel to be Given to Trustee. The Trustee, subject to the provisions of Sections 6.1 and 6.2, shall receive, in addition to the Opinion of Counsel required by Section 9.5, an Opinion of Counsel as conclusive evidence that any consolidation, merger, sale, conveyance, transfer or other disposition, and any assumption, permitted or required by the terms of this Article XI complies with the provisions of this Article XI.

ARTICLE XII.
SATISFACTION AND DISCHARGE OF INDENTURE

Section 12.1. Discharge of Indenture. When

(a) the Company shall deliver to the Trustee for cancellation all Debentures theretofore authenticated (other than any Debentures which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.6) and not theretofore canceled, or

(b) all the Debentures not theretofore canceled or delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within 1 year or are to be called for redemption within one (1) year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and the Company shall deposit with the Trustee, in trust, funds, which shall be immediately due and payable, sufficient to pay at maturity or upon redemption all of the Debentures (other than any Debentures which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.6) not theretofore canceled or delivered to the Trustee for cancellation, including principal and premium, if any, and interest due or to become due to such date of maturity or redemption date, as the case may be, but excluding, however, the amount of any moneys for the payment of principal of, and premium, if any, or interest on the Debentures (1) theretofore repaid to the Company in accordance with the provisions of Section 12.4, or (2) paid to any state or to the District of Columbia pursuant to its unclaimed property or similar laws, and if in the case of either clause (a) or clause (b) the Company shall also pay or cause to be paid all other sums payable hereunder by the Company, then this Indenture shall cease to be of further effect except for the provisions of Sections 2.5, 2.6, 2.8, 3.1, 3.2, 3.4, 6.6, 6.8, 6.9 and 12.4 hereof shall survive until such Debentures shall mature and be paid. Thereafter, Sections 6.6 and 12.4 shall and the Trustee, on demand of the Company accompanied by an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with, and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture. The Company agrees to reimburse the Trustee for any costs or expenses thereafter reasonably and properly incurred by the Trustee in connection with this Indenture or the Debentures.

Section 12.2. Deposited Moneys to be Held in Trust by Trustee. Subject to the provisions of Section 12.4, all moneys deposited with the Trustee pursuant to Section 12.1 shall be held in trust in a non-interest bearing account and applied by it to the payment, either directly or through any paying agent (including the Company if acting as its own paying agent), to the holders of the particular Debentures for the payment of which such moneys have been deposited with the Trustee, of all sums due and to become due thereon for principal, and premium, if any, and interest.

Section 12.3. Paying Agent to Repay Moneys Held. Upon the satisfaction and discharge of this Indenture all moneys then held by any paying agent of the Debentures (other than the Trustee) shall, upon demand of the Company, be repaid to it or paid to the Trustee, and thereupon such paying agent shall be released from all further liability with respect to such moneys.

Section 12.4. Return of Unclaimed Moneys. Any moneys deposited with or paid to the Trustee or any paying agent for payment of the principal of, and premium, if any, or interest on Debentures and not applied but remaining unclaimed by the holders of Debentures for two (2) years after the date upon which the principal of, and premium, if any, or interest on such Debentures, as the case may be, shall have become due and payable, shall, subject to applicable escheatment laws, be repaid to the Company by the Trustee or such paying agent on written demand; and the holder of any of the Debentures shall thereafter look only to the Company for any payment which such holder may be entitled to collect, and all liability of the Trustee or such paying agent with respect to such moneys shall thereupon cease.

ARTICLE XIII.
IMMUNITY OF INCORPORATORS, STOCKHOLDERS,
OFFICERS AND DIRECTORS

Section 13.1. Indenture and Debentures Solely Corporate Obligations. No recourse for the payment of the principal of or premium, if any, or interest on any Debenture, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in this Indenture or in any supplemental indenture, or in any such Debenture, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, employee, officer or director, as such, past, present or future, of the Company or of any successor Person of the Company, either directly or through the Company or any successor Person of the Company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Debentures.

ARTICLE XIV.
MISCELLANEOUS PROVISIONS

Section 14.1. Successors. All the covenants, stipulations, promises and agreements of the Company in this Indenture shall bind its successors and assigns whether so expressed or not.

Section 14.2. Official Acts by Successor Entity. Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Company shall and may be done and performed with like force and effect by the like board, committee, officer or other authorized Person of any entity that shall at the time be the lawful successor of the Company.

Section 14.3. Surrender of Company Powers. The Company by instrument in writing executed by authority of at least 2/3 (two-thirds) of its Board of Directors and delivered to the Trustee may surrender any of the powers reserved to the Company and thereupon such power so surrendered shall terminate both as to the Company, and as to any permitted successor.

Section 14.4. Addresses for Notices, etc. Any notice, consent, direction, request, authorization, waiver or demand which by any provision of this Indenture is required or permitted to be given, made, furnished or served by the Trustee or by the Securityholders on or to the Company may be given or served in writing by being deposited postage prepaid by registered or certified mail in a post office letter box addressed (until another address is filed by the Company, with the Trustee for the purpose) to the Company, 202 E. Center Street, Warsaw, Indiana 46580 Attention: David M. Findlay. Any notice, consent, direction, request, authorization, waiver or demand by any Securityholder or the Company to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the office of the Trustee, addressed to the Trustee, 225 Asylum Street, Goodwin Square, Hartford, Connecticut, 06103 Attention: Vice President, Corporate Trust Department, with a copy to U.S. Bank National Association, P.O. Box 778, Boston, Massachusetts 02102-0778, Attention: Earl W. Dennison, Jr., Corporate Trust Department. Any notice, consent, direction, request, authorization, waiver or demand on or to any Securityholder shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the address set forth in the Debenture Register.

Section 14.5. Governing Law. This Indenture and each Debenture shall be deemed to be a contract made under the law of the State of New York, and for all purposes shall be governed by and construed in accordance with the law of said State, without regard to conflict of laws principles thereof.

Section 14.6. Evidence of Compliance with Conditions Precedent. Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that in the opinion of the signers all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant provided for in this Indenture shall include (1) a statement that the person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not in the opinion of such person, such condition or covenant has been complied with.

Section 14.7. Non-Business Days. In any case where the date of payment of interest on or principal of the Debentures will be a day that is not a Business Day, the payment of such interest on or principal of the Debentures need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the original date of payment, and no interest shall accrue for the period from and after such date.

Section 14.8. Table of Contents, Headings, etc. The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

Section 14.9. Execution in Counterparts. This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 14.10. Separability. In case any one or more of the provisions contained in this Indenture or in the Debentures shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture or of such Debentures, but this Indenture and such Debentures shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

Section 14.11. Assignment. The Company will have the right at all times to assign any of its rights or obligations under this Indenture to a direct or indirect wholly owned Subsidiary of the Company, provided that, in the event of any such assignment, the Company will remain liable for all such obligations. Subject to the foregoing, this Indenture is binding upon and inures to the benefit of the parties hereto and their respective successors and assigns. This Indenture may not otherwise be assigned by the parties hereto.

Section 14.12. Acknowledgment of Rights. The Company agrees that, with respect to any Debentures held by the Trust or the Institutional Trustee of the Trust, if the Institutional Trustee of the Trust fails to enforce its rights under this Indenture as the holder of Debentures held as the assets of such Trust after the holders of a majority in Liquidation Amount of the Capital Securities of such Trust have so directed such Institutional Trustee, a holder of record of such Capital Securities may, to the fullest extent permitted by law, institute legal proceedings directly against the Company to enforce such Institutional Trustee's rights under this Indenture without first instituting any legal proceedings against such trustee or any other Person. Notwithstanding the foregoing, if an Event of Default has occurred and is continuing and such event is attributable to the failure of the Company to pay interest (or premium, if any) or principal on the Debentures on the date such interest (or premium, if any) or principal is otherwise payable (or in the case of redemption, on the redemption date), the Company agrees that a holder of record of Capital Securities of the Trust may directly institute a proceeding against the Company for enforcement of payment to such holder directly of the principal of (or premium, if any) or interest on the Debentures having an aggregate principal amount equal to the aggregate Liquidation Amount of the Capital Securities of such holder on or after the respective due date specified in the Debentures.

ARTICLE XV.
SUBORDINATION OF DEBENTURES

Section 15.1. Agreement to Subordinate. The Company covenants and agrees, and each holder of Debentures by such Securityholder's acceptance thereof likewise covenants and agrees, that all Debentures shall be issued

subject to the provisions of this Article XV; and each holder of a Debenture whether upon original issue or upon transfer or assignment thereof, accepts and agrees to be bound by such provisions.

The payment by the Company of the principal of, and premium, if any, and interest on all Debentures shall, to the extent and in the manner hereinafter set forth, be subordinated and junior in right of payment to the prior payment in full of all Senior Indebtedness of the Company, whether outstanding at the date of this Indenture or thereafter incurred.

No provision of this Article XV shall prevent the occurrence of any default or Event of Default hereunder.

Section 15.2. Default on Senior Indebtedness. In the event and during the continuation of any default by the Company in the payment of principal, premium, interest or any other payment due on any Senior Indebtedness of the Company following any grace period, or in the event that the maturity of any Senior Indebtedness of the Company has been accelerated because of a default, then, in either case, no payment shall be made by the Company with respect to the principal (including redemption) of, or premium, if any, or interest on the Debentures.

In the event that, notwithstanding the foregoing, any payment shall be received by the Trustee when such payment is prohibited by the preceding paragraph of this Section 15.2, such payment shall, subject to Section 15.7, be held in trust for the benefit of, and shall be paid over or delivered to, the holders of Senior Indebtedness or their respective representatives, or to the trustee or trustees under any indenture pursuant to which any of such Senior Indebtedness may have been issued, as their respective interests may appear, but only to the extent that the holders of the Senior Indebtedness (or their representative or representatives or a trustee) notify the Trustee in writing within 90 days of such payment of the amounts then due and owing on the Senior Indebtedness and only the amounts specified in such notice to the Trustee shall be paid to the holders of Senior Indebtedness.

Section 15.3 Liquidation, Dissolution, Bankruptcy. Upon any payment by the Company or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to creditors upon any dissolution, winding-up or liquidation or reorganization of the Company, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all amounts due upon all Senior Indebtedness of the Company shall first be paid in full, or payment thereof provided for in money in accordance with its terms, before any payment is made by the Company, on account of the principal (and premium, if any) or interest on the Debentures. Upon any such dissolution or winding-up or liquidation or reorganization, any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, which the Securityholders or the Trustee would be entitled to receive from the Company, except for the provisions of this Article XV, shall be paid by the Company, or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other Person making such payment or distribution, or by the Securityholders or by the Trustee under this Indenture if received by them or it, directly to the holders of Senior Indebtedness (pro rata to such holders on the basis of the respective amounts of Senior Indebtedness held by such holders, as calculated by the Company) or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing such Senior Indebtedness may have been issued, as their respective interests

may appear, to the extent necessary to pay such Senior Indebtedness in full, in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness, before any payment or distribution is made to the Securityholders or to the Trustee.

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, prohibited by the foregoing, shall be received by the Trustee before all Senior Indebtedness is paid in full, or provision is made for such payment in money in accordance with its terms, such payment or distribution shall be held in trust for the benefit of and shall be paid over or delivered to the holders of such Senior Indebtedness or their representative or representatives, or the trustee or trustees under any indenture pursuant to which any instruments evidencing such Senior Indebtedness may have been issued, as their respective interests may appear, as calculated by the Company, for application to the payment of all Senior Indebtedness, remaining unpaid to the extent necessary to pay such Senior Indebtedness in full in money in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the benefit of the holders of such Senior Indebtedness.

For purposes of this Article XV, the words "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinated at least to the extent provided in this Article XV with respect to the Debentures to the payment of all Senior Indebtedness, that may at the time be outstanding, provided that (i) such Senior Indebtedness is assumed by the new corporation, if any, resulting from any such reorganization or readjustment, and (ii) the rights of the holders of such Senior Indebtedness are not, without the consent of such holders, altered by such reorganization or readjustment. The consolidation of the Company with, or the merger of the Company into, another corporation or the liquidation or dissolution of the Company following the conveyance or transfer of its property as an entirety, or substantially as an entirety, to another corporation upon the terms and conditions provided for in Article XI of this Indenture shall not be deemed a dissolution, winding-up, liquidation or reorganization for the purposes of this Section if such other corporation shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions stated in Article XI of this Indenture. Nothing in Section 15.2 or in this Section shall apply to claims of, or payments to, the Trustee under or pursuant to Section 6.6 of this Indenture.

Section 15.4. Subrogation. Subject to the payment in full of all Senior Indebtedness, the Securityholders shall be subrogated to the rights of the holders of such Senior Indebtedness to receive payments or distributions of cash, property or securities of the Company, applicable to such Senior Indebtedness until the principal of (and premium, if any) and interest on the Debentures shall be paid in full. For the purposes of such subrogation, no payments or distributions to the holders of such Senior Indebtedness of any cash, property or securities to which the Securityholders or the Trustee would be entitled except for the provisions of this Article XV, and no payment over pursuant to the provisions of this Article XV to or for the benefit of the holders of such Senior Indebtedness by Securityholders or the Trustee, shall, as between the Company, its creditors other than holders of Senior

Indebtedness of the Company, and the holders of the Debentures be deemed to be a payment or distribution by the Company to or on account of such Senior Indebtedness. It is understood that the provisions of this Article XV are and are intended solely for the purposes of defining the relative rights of the holders of the Securities, on the one hand, and the holders of such Senior Indebtedness, on the other hand.

Nothing contained in this Article XV or elsewhere in this Indenture or in the Debentures is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Indebtedness, and the holders of the Debentures, the obligation of the Company, which is absolute and unconditional, to pay to the holders of the Debentures the principal of (and premium, if any) and interest on the Debentures as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the holders of the Debentures and creditors of the Company, other than the holders of Senior Indebtedness, nor shall anything herein or therein prevent the Trustee or the holder of any Debenture from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article XV of the holders of such Senior Indebtedness in respect of cash, property or securities of the Company, received upon the exercise of any such remedy.

Upon any payment or distribution of assets of the Company referred to in this Article XV, the Trustee, subject to the provisions of Article VI of this Indenture, and the Securityholders shall be entitled to conclusively rely upon any order, or decree made by any court of competent jurisdiction in which such dissolution, winding-up, liquidation or reorganization proceedings are pending, or a certificate of the receiver, trustee in bankruptcy, liquidation trustee, agent or other Person making such payment or distribution, delivered to the Trustee or to the Securityholders, for the purposes of ascertaining the Persons entitled to participate in such distribution, the holders of Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article XV.

Section 15.5. Trustee to Effectuate Subordination. Each Securityholder by such Securityholder's acceptance thereof authorizes and directs the Trustee on such Securityholder's behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article XV and appoints the Trustee such Securityholder's attorney-in-fact for any and all such purposes.

Section 15.6. Notice by the Company. The Company shall give prompt written notice to a Responsible Officer of the Trustee at the Principal Office of the Trustee of any fact known to the Company that would prohibit the making of any payment of monies to or by the Trustee in respect of the Debentures pursuant to the provisions of this Article XV. Notwithstanding the provisions of this Article XV or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts that would prohibit the making of any payment of monies to or by the Trustee in respect of the Debentures pursuant to the provisions of this Article XV, unless and until a Responsible Officer of the Trustee at the Principal Office of the Trustee shall have received written notice thereof from the Company or a holder or holders of Senior Indebtedness or from any trustee therefor; and before the receipt of any such written notice, the Trustee, subject to the provisions of Article VI of

this Indenture, shall be entitled in all respects to assume that no such facts exist; provided, however, that if the Trustee shall not have received the notice provided for in this Section at least two (2) Business Days prior to the date upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment of the principal of (or premium, if any) or interest on any Debenture), then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purposes for which they were received, and shall not be affected by any notice to the contrary that may be received by it within two (2) Business Days prior to such date.

The Trustee, subject to the provisions of Article VI of this Indenture, shall be entitled to conclusively rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Indebtedness (or a trustee or representative on behalf of such holder), to establish that such notice has been given by a holder of such Senior Indebtedness or a trustee or representative on behalf of any such holder or holders. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of such Senior Indebtedness to participate in any payment or distribution pursuant to this Article XV, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of such Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article XV, and, if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

Section 15.7. Rights of the Trustee; Holders of Senior Indebtedness. The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article XV in respect of any Senior Indebtedness at any time held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder.

With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform or to observe only such of its covenants and obligations as are specifically set forth in this Article XV, and no implied covenants or obligations with respect to the holders of such Senior Indebtedness shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of such Senior Indebtedness and, subject to the provisions of Article VI of this Indenture, the Trustee shall not be liable to any holder of such Senior Indebtedness if it shall pay over or deliver to Securityholders, the Company or any other Person money or assets to which any holder of such Senior Indebtedness shall be entitled by virtue of this Article XV or otherwise.

Nothing in this Article XV shall apply to claims of, or payments to, the Trustee under or pursuant to Section 6.6.

Section 15.8. Subordination May Not Be Impaired. No right of any present or future holder of any Senior Indebtedness to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company, or by any act or failure

to act, in good faith, by any such holder, or by any noncompliance by the Company, with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof that any such holder may have or otherwise be charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Trustee or the Securityholders, without incurring responsibility to the Securityholders and without impairing or releasing the subordination provided in this Article XV or the obligations hereunder of the holders of the Debentures to the holders of such Senior Indebtedness, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, such Senior Indebtedness, or otherwise amend or supplement in any manner such Senior Indebtedness or any instrument evidencing the same or any agreement under which such Senior Indebtedness is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing such Senior Indebtedness; (iii) release any Person liable in any manner for the collection of such Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Company, and any other Person.

Signatures appear on the following page

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed by their respective officers thereunto duly authorized, as of the day and year first above written.

LAKELAND FINANCIAL CORPORATION

By: /s/ David M. Findlay

Name: David M. Findlay

Title: EVP /CFO

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: /s/ Earl W. Dennison, Jr.

Name: Earl W. Dennison, Jr.

Title: Vice President

EXHIBIT A

FORM OF JUNIOR SUBORDINATED DEBENTURE

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAW. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A IN ACCORDANCE WITH RULE 144A, (D) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 (AS APPLICABLE) OF REGULATION S UNDER THE SECURITIES ACT, (E) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF SUBPARAGRAPH (A) OF RULE 501 UNDER THE SECURITIES ACT THAT IS ACQUIRING THIS SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH INSTITUTIONAL ACCREDITED INVESTOR, FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (F) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO IT IN ACCORDANCE WITH THE INDENTURE, A COPY OF WHICH MAY BE OBTAINED FROM THE COMPANY.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF ALSO AGREES, REPRESENTS AND WARRANTS THAT IT IS NOT AN EMPLOYEE BENEFIT, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER PLAN OR ARRANGEMENT SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), OR SECTION 4975 OF THE INTERNAL REVENUE- CODE OF 1986, AS AMENDED (THE "CODE") (EACH A "PLAN"), OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY PLAN'S INVESTMENT IN THE ENTITY, AND NO PERSON INVESTING "PLAN ASSETS" OF ANY PLAN MAY ACQUIRE OR HOLD THE SECURITIES OR ANY INTEREST THEREIN, UNLESS SUCH PURCHASER OR HOLDER IS ELIGIBLE FOR EXEMPTIVE RELIEF AVAILABLE UNDER U.S. DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION

96-23, 95-60, 91-38, 90-1 OR 84-14 OR ANOTHER APPLICABLE EXEMPTION OR ITS PURCHASE AND HOLDING OF THIS SECURITY IS NOT PROHIBITED BY SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE WITH RESPECT TO SUCH PURCHASE OR HOLDING. ANY PURCHASER OR HOLDER OF THE SECURITIES OR ANY INTEREST THEREIN WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE AND HOLDING THEREOF THAT EITHER (i) IT IS NOT AN EMPLOYEE BENEFIT PLAN WITHIN THE MEANING OF SECTION 3(3) OF ERISA, OR A PLAN TO WHICH SECTION 4975 OF THE CODE IS APPLICABLE, A TRUSTEE OR OTHER PERSON ACTING ON BEHALF OF AN EMPLOYEE BENEFIT PLAN OR PLAN, OR ANY OTHER PERSON OR ENTITY USING THE ASSETS OF ANY EMPLOYEE BENEFIT PLAN OR PLAN TO FINANCE SUCH PURCHASE, OR (ii) SUCH PURCHASE WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH THERE IS NO APPLICABLE STATUTORY OR ADMINISTRATIVE EXEMPTION.

THIS SECURITY WILL BE ISSUED AND MAY BE TRANSFERRED ONLY IN BLOCKS HAVING AN AGGREGATE PRINCIPAL AMOUNT OF NOT LESS THAN \$500,000.00 AND MULTIPLES OF \$1,000.00 IN EXCESS THEREOF. ANY ATTEMPTED TRANSFER OF THIS SECURITY IN A BLOCK HAVING AN AGGREGATE PRINCIPAL AMOUNT OF LESS THAN \$500,000.00 SHALL BE DEEMED TO BE VOID AND OF NO LEGAL EFFECT WHATSOEVER.

THE HOLDER OF THIS SECURITY AGREES THAT IT WILL COMPLY WITH THE FOREGOING RESTRICTIONS.

IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR AND TRANSFER AGENT SUCH CERTIFICATES AND OTHER INFORMATION AS MAY BE REQUIRED BY THE INDENTURE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS.

Floating Rate Junior Subordinated Deferrable Interest Debenture
of
LAKELAND FINANCIAL CORPORATION
October 1, 2003

Lakeland Financial Corporation, an Indiana corporation (the "Company" which term includes any successor Person under the Indenture hereinafter referred to), for value received promises to pay to U.S. Bank National Association, not in its individual capacity but solely as Institutional Trustee for Lakeland Statutory Trust II (the "Holder") or registered assigns, the principal sum of THIRTY MILLION NINE HUNDRED TWENTY-EIGHT THOUSAND DOLLARS (\$30,928,000) on October 1, 2033, and to pay interest on said principal sum from the date of original issuance, or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, quarterly (subject to deferral as set forth herein) in arrears on March 31, June 30, September 30 and December 31 of each year commencing December 31, 2003, at an annual rate equal to 4.21% beginning on

(and including) the date of original issuance and ending on (but excluding) December 31, 2003 and at an annual rate for each successive period beginning on (and including) December 31, 2003, and each succeeding Interest Payment Date, and ending on (but excluding) the next succeeding Interest Payment Date (each a "Distribution Period"), equal to 3-Month LIBOR, determined as described below, plus 3.05% (the "Coupon Rate"), applied to the principal amount hereof, until the principal hereof is paid or duly provided for or made available for payment, and on any overdue principal and (without duplication) on any overdue installment of interest at the same rate per annum, compounded quarterly, from the dates such amounts are due until they are paid or made available for payment. The amount of interest payable for any period will be computed on the basis of the actual number of days in the Distribution Period concerned divided by 360. In the event that any date on which interest is payable on this Debenture is not a Business Day, then a payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on the date the payment was originally payable. The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the Person in whose name this Debenture (or one or more Predecessor Securities) is registered at the close of business on the regular record date for such interest installment, which shall be fifteen days prior to the day on which the relevant Interest Payment Date occurs. Any such interest installment not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such regular record date and may be paid to the Person in whose name this Debenture (or one or more Predecessor Securities) is registered at the close of business on a special record date.

"3-Month LIBOR" as used herein, means the London interbank offered rate for three-month U.S. dollar deposits determined by the Trustee in the following order of priority: (i) the rate (expressed as a percentage per annum) for U.S. dollar deposits of an amount equal or comparable to the aggregate liquidation amount of the Debentures having a three-month maturity that appears on Telerate Page 3750 as of 11:00 a.m. (London time) on the particular Determination Date ("Telerate Page 3750" means the display designated as "Page 3750" on the Dow Jones Telerate Service or such other page as may replace Page 3750 on that service or such other service or services as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying London interbank offered rates for U.S. dollars deposits); (ii) if such rate does not appear on Telerate Page 3750 as of 11:00 a.m. (London time) on the Determination Date, 3-Month LIBOR will be the arithmetic mean of the rates (expressed as percentages per annum) for U.S. dollar deposits of an amount equal or comparable to the aggregate liquidation amount of the Debentures having a three-month maturity that appear on Reuters Monitor Money Rates Page LIBOR ("Reuters Page LIBO") as of 11:00 a.m. (London time) on such Determination Date; (iii) if such rate does not appear on Reuters Page LIBO as of 11:00 a.m. (London time) on the related Determination Date, the Trustee will request the principal London offices of four leading banks in the London interbank market to provide such banks' offered quotations (expressed as percentages per annum) to prime banks in the London interbank market for U.S. dollar deposits of an amount equal or comparable to the aggregate liquidation amount of the Debentures having a three-month maturity as of 11:00 a.m. (London time) on such Determination Date, and if at least two quotations are provided, 3-Month LIBOR will be the arithmetic mean of such quotations; and (iv) if fewer than two such quotations are provided as requested in clause (iii) above, the Trustee will request four major New York

City banks to provide such banks' offered quotations (expressed as percentages per annum) to leading European banks for loans in U.S. dollars of an amount equal or comparable to the aggregate liquidation amount of the Debentures as of 11:00 a.m. (London time) on such Determination Date, and if at least two such quotations are provided, 3-Month LIBOR will be the arithmetic mean of such quotations. If the rate for U.S. dollar deposits of an amount equal or comparable to the aggregate liquidation amount of the Debentures having a three-month maturity that initially appears on Telerate Page 3750 or Reuters Page LIBO, as the case may be, as of 11:00 a.m. (London time) on the related Determination Date is superseded on the Telerate Page 3750 or Reuters Page LIBO, as the case may be, by a corrected rate by 12:00 noon (London time) on such Determination Date, then the corrected rate as so substituted on the applicable page will be the applicable 3-Month LIBOR for such Determination Date. As used herein, "Determination Date" means the date that is two London Banking Days (i.e., a day in which dealings in deposits in U.S. dollars are transacted in the London interbank market) preceding the commencement of the relevant Distribution Period.

In the event that the 3-Month LIBOR is indeterminable by the methods described above, the Coupon Rate shall equal the 3-Month LIBOR in effect on the most recent Determination Date (whether or not 3-Month LIBOR for such period was in fact determined on such Determination Date) plus 3.05%.

The Coupon Rate for any Distribution Period will at no time be higher than the maximum rate then permitted by New York law as the same may be modified by United States law.

All percentages resulting from any calculations on the Debentures will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% or .09876545 being rounded to 9.87655% or .0987655), and all dollar amounts used in or resulting from such calculation will be rounded to the nearest cent (with one-half cent being rounded upward).

The principal of and interest on this Debenture shall be payable at the office or agency of the Trustee (or other paying agent appointed by the Company) maintained for that purpose in any coin or currency of the United States of America that at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made by check mailed to the registered holder at such address as shall appear in the Debenture Register if a request for a wire transfer by such holder has not been received by the Company or by wire transfer to an account appropriately designated by the holder hereof. Notwithstanding the foregoing, so long as the holder of this Debenture is the Institutional Trustee, the payment of the principal of and interest on this Debenture will be made in immediately available funds at such place and to such account as may be designated by the Trustee.

So long as no Event of Default has occurred and is continuing, the Company shall have the right, from time to time, and without causing an Event of Default, to defer payments of interest on the Debentures by extending the interest payment period on the Debentures at any time and from time to time during the term of the Debentures, for up to 20 consecutive quarterly periods (each such extended interest payment period, an "Extension Period"), during which Extension Period no interest (including Additional Interest) shall be

due and payable. No Extension Period may end on a date other than an Interest Payment Date. At the end of any such Extension Period the Company shall pay all interest then accrued and unpaid on the Debentures (together with Additional Interest thereon); provided, however, that no Extension Period may extend beyond the Maturity Date; provided further, however, that during any such Extension Period, the Company shall not and shall not permit any Affiliate to (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Company's or such Affiliate's capital stock (other than payments of dividends or distributions to the Company) or make any guarantee payments with respect to the foregoing or (ii) make any payment of principal of or interest or premium, if any, on or repay, repurchase or redeem any debt securities of the Company or any Affiliate that rank pari passu in all respects with or junior in interest to the Debentures (other than, with respect to clauses (i) and (ii) above, (a) repurchases, redemptions or other acquisitions of shares of capital stock of the Company in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of one or more employees, officers, directors or consultants, in connection with a dividend reinvestment or stockholder stock purchase plan or in connection with the issuance of capital stock of the Company (or securities convertible into or exercisable for such capital stock) as consideration in an acquisition transaction entered into prior to the applicable Extension Period, (b) as a result of any exchange or conversion of any class or series of the Company's capital stock (or any capital stock of a subsidiary of the Company) for any class or series of the Company's capital stock or of any class or series of the Company's indebtedness for any class or series of the Company's capital stock, (c) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (d) any declaration of a dividend in connection with any stockholders' rights plan, or the issuance of rights, stock or other property under any stockholders' rights plan, or the redemption or repurchase of rights pursuant thereto, (e) any dividend in the form of stock, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks pari passu with or junior to such stock and any cash payments in lieu of fractional shares issued in connection therewith, or (f) payments under the Capital Securities Guarantee). Prior to the termination of any Extension Period, the Company may further extend such period, provided that such period together with all such previous and further consecutive extensions thereof shall not exceed 20 consecutive quarterly periods, or extend beyond the Maturity Date. Upon the termination of any Extension Period and upon the payment of all accrued and unpaid interest and Additional Interest, the Company may commence a new Extension Period, subject to the foregoing requirements. No interest or Additional Interest shall be due and payable during an Extension Period, except at the end thereof, but each installment of interest that would otherwise have been due and payable during such Extension Period shall bear Additional Interest. The Company must give the Trustee notice of its election to begin or extend such Extension Period at least five (5) Business Days prior to the regular record date (as such term is used in Section 2.8 of the Indenture) immediately preceding the Interest Payment Date with respect to which interest on the Debentures would have been payable except for the election to begin or extend such Extension Period.

Subject to the Company having received prior approval of the Federal Reserve if then required under applicable capital guidelines or policies of

the Federal Reserve, the Company may redeem this Debenture prior to the Maturity Date in the manner and at the times set forth in the Indenture.

The indebtedness evidenced by this Debenture is, to the extent provided in the Indenture, subordinate and junior in right of payment to the prior payment in full of all Senior Indebtedness, and this Debenture is issued subject to the provisions of the Indenture with respect thereto. Each holder of this Debenture, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his or her behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination so provided and (c) appoints the Trustee his or her attorney-in-fact for any and all such purposes. Each holder hereof, by his or her acceptance hereof, hereby waives all notice of the acceptance of the subordination provisions contained herein and in the Indenture by each holder of Senior Indebtedness, whether now outstanding or hereafter incurred, and waives reliance by each such holder upon said provisions.

This Debenture shall be deemed to be a contract made under the law of the State of New York, and for all purposes shall be governed by and construed with the law of said State, without regard to conflict of laws principles thereof.

This Debenture shall not be entitled to any benefit under the Indenture hereinafter referred to, be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been signed by or on behalf of the Trustee.

Capitalized terms used and not defined in this Debenture shall have the meanings assigned in the Indenture duly executed and dated as of the date of original issuance of this Debenture between the Trustee and the Company. The Indenture contains a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Debentures and of the terms upon which the Debentures are, and are to be, authenticated and delivered.

(continued)

IN WITNESS WHEREOF, the Company has duly executed this certificate.

LAKELAND FINANCIAL CORPORATION

By: /s/ David M. Findlay

Name: David M. Findlay

Title: EVP/CFO

CERTIFICATE OF AUTHENTICATION

This is one of the Debentures referred to in the within-mentioned Indenture.

U.S. Bank National Association,
as Trustee

By: /s/ Earl W. Dennison, Jr.
Authorized Officer

Certifications

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

1. I have reviewed this annual report on Form 10-K of Lakeland Financial Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in the Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 25, 2004

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

Certifications

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

1. I have reviewed this annual report on Form 10-K of Lakeland Financial Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in the Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 25, 2004

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

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

In connection with the Annual Report of Lakeland Financial Corporation (the "Company") on Form 10-K for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael L. Kubacki, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Michael L. Kubacki

Michael L. Kubacki
Chief Executive Officer
February 25, 2004

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

In connection with the Annual Report of Lakeland Financial Corporation (the "Company") on Form 10-K for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Findlay, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ David Findlay

David M. Findlay
Chief Financial Officer
February 25, 2004