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

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2001

OR

[ ]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _____________

Commission File Number 0-11487

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

INDIANA	35-1559596
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Class	Outstanding at October 31, 2001
Common Stock, No Par Value	5,775,632

LAKELAND FINANCIAL CORPORATION

Form 10-Q Quarterly Report

Table of Contents

PART I.

PART II.

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
As of September 30, 2001 and December 31, 2000
(in thousands)

	September 30, 2001	December 31, 2000
	(Unaudited)	
ASSETS Cash and cash equivalents:		
Cash and due from banks	$ 57,503	$ 84,682
Short-term investments	5,121	4,311
Total cash and cash equivalents	62,624	88,993
Securities available-for-sale:		
U. S. Treasury and government agency securities	32,104	38,066
Mortgage-backed securities	214,433	207,594
State and municipal securities	35,242	35,430
Other debt securities	12,796	12,518
Total securities available-for-sale (carried at fair value)	294,575	293,608
Real estate mortgages held-for-sale	1,502	183
Loans:		
Total loans	722,532	718,876
Less: Allowance for loan losses	7,592	7,124
Net loans	714,940	711,752
Land, premises and equipment, net	24,709	27,297
Accrued income receivable	6,277	6,744
Intangible assets	6,317	9,624
Other assets	14,117	10,956
Total assets	$ 1,125,061	$ 1,149,157

(Continued)

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
As of September 30, 2001 and December 31, 2000
(in thousands)

	September 30, 2001 (Unaudited)	December 31, 2000
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest bearing deposits	$ 145,064	$ 164,606
Interest bearing deposits	666,764	680,723
Total deposits	811,828	845,329
Short-term borrowings:		
Federal funds purchased	28,200	8,250
U.S. Treasury demand notes	3,456	3,674
Securities sold under agreements to repurchase	135,510	138,154
Other borrowings	30,000	50,000
Total short-term borrowings	197,166	200,078
Accrued expenses payable	9,712	6,684
Other liabilities	1,701	1,369
Long-term borrowings	11,400	11,433
Guaranteed preferred beneficial interests in Company's subordinated debentures	19,311	19,291
Total liabilities	1,051,118	1,084,184
SHAREHOLDERS' EQUITY		
Common stock: No par value, 90,000,000 shares authorized, 5,813,984 shares issued and 5,775,632 outstanding as of September 30, 2001, and 5,813,984 shares issued and 5,784,105 outstanding at December 31, 2000	1,453	1,453
Additional paid-in capital	8,537	8,537
Retained earnings	60,399	55,734
Accumulated other comprehensive income/(loss)	4,224	(207)
Treasury stock, at cost	(670)	(544)
Total shareholders' equity	73,943	64,973
Total liabilities and shareholders' equity	$ 1,125,061	$ 1,149,157

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

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months and Nine Months Ended September 30, 2001, and 2000
(in thousands except for share data)

(Unaudited)

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans: Taxable	$ 14,721	$ 15,752	$ 45,363	$ 45,291
Tax exempt	33	33	100	107
Total loan income	14,754	15,785	45,463	45,398
Short-term investments	140	97	416	240
Securities:				
U.S. Treasury and government agency securities	715	727	2,141	2,190
Mortgage-backed securities	3,120	3,228	9,664	9,491
State and municipal securities	442	446	1,331	1,337
Other debt securities	112	115	341	320
Total interest and dividend income	19,283	20,398	59,356	58,976
INTEREST EXPENSE				
Interest on deposits	7,127	8,484	24,493	23,578
Interest on short-term borrowings	1,647	2,559	5,583	7,370
Interest on long-term debt	613	607	1,834	1,916
Total interest expense	9,387	11,650	31,910	32,864
NET INTEREST INCOME	9,896	8,748	27,446	26,112
Provision for loan losses	970	92	1,490	707
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,926	8,656	25,956	25,405
NONINTEREST INCOME				
Trust and brokerage fees	600	530	2,023	1,586
Service charges on deposit accounts	1,295	1,109	3,747	3,304
Other income (net)	710	871	2,180	2,478
Net gains on the sale of branches	753	0	753	0
Net gains on the sale of real estate mortgages held-for-sale	348	128	792	366
Net securities gains (losses)	50	0	52	0
Total noninterest income	3,756	2,638	9,547	7,734
NONINTEREST EXPENSE				
Salaries and employee benefits	4,616	4,257	13,202	11,881
Occupancy and equipment expense	1,158	1,277	3,668	3,866
Other expense	2,796	2,471	8,067	7,272
Total noninterest expense	8,570	8,005	24,937	23,019

(Continued)

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months and Nine Months Ended September 30, 2001, and 2000
(in thousands except for share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
INCOME BEFORE INCOME TAX EXPENSE	4,112	3,289	10,566	10,120
Income tax expense	1,345	974	3,299	3,102
NET INCOME	$ 2,767	$ 2,315	$ 7,267	$ 7,018
AVERAGE COMMON SHARES OUTSTANDING FOR BASIC EPS	5,813,984	5,813,984	5,813,984	5,813,984
BASIC EARNINGS PER COMMON SHARE	$ 0.48	$ 0.40	$ 1.25	$ 1.21
AVERAGE COMMON SHARES OUTSTANDING FOR DILUTED EPS	5,853,748	5,814,007	5,836,549	5,814,234
DILUTED EARNINGS PER COMMON SHARE	$ 0.47	$ 0.40	$ 1.25	$ 1.21

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

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Three Months and Nine Months Ended September 30, 2001 and 2000
(in thousands)

(unaudited)

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2001		2000		2001		2000	
Common Stock:								
Balance at beginning of the period	$ 1,453		$ 1,453		$ 1,453		$ 1,453	
Balance at end of the period	1,453		1,453		1,453		1,453	
Paid-in Capital:								
Balance at beginning of the period	8,537		8,537		8,537		8,537	
Balance at end of the period	8,537		8,537		8,537		8,537	
Retained Earnings:								
Balance at beginning of the period	58,498		52,618		55,734		49,422	
Net Income	2,767	$ 2,767	2,315	$ 2,315	7,267	$ 7,267	7,018	$7,018
Cash dividends declared ($.15 and $.13 per share for 2001 and 2000)	(866)		(752)		(2,602)		(2,259)	
Balance at end of the period	60,399		54,181		60,399		54,181	
Accumulated Other Comprehensive Income/(Loss):								
Balance at beginning of the period	1,698		(5,414)		(207)		(4,797)	
Unrealized gain (loss) on available-for-sale securities arising during the period (net of taxes)	2,526		1,689		4,431		1,072	
Other comprehensive income/(loss)(net of taxes of $1,526, $1,108, $2,506 and $703)	2,526	2,526	1,689	1,689	4,431	4,431	1,072	1,072
Total comprehensive income		$ 5,293		$ 4,004		$11,698		$8,090
Balance at end of the period	4,224		(3,725)		4,224		(3,725)	
Treasury Stock:								
Balance at beginning of the period	(604)		(478)		(544)		(421)	
Acquisition of treasury stock	(66)		(66)		(126)		(123)	
Balance at end of the period	(670)		(544)		(670)		(544)	
Total Shareholders' Equity	$73,943		$59,902		$73,943		$59,902	

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

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2001 and 2000
(in thousands)

(Unaudited)

(Page 1 of 2)

	2001	2000
Cash flows from operating activities:		
Net income	$ 7,267	$ 7,018
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,775	1,829
Provision for loan losses	1,490	707
Amortization of intangible assets	666	693
Amortization of mortgage servicing rights	205	179
Impairment of mortgage servicing rights	471	0
Loans originated for sale	(43,467)	(15,897)
Net gain on sale of loans	(792)	(366)
Proceeds from sale of loans	42,672	16,287
Net (gain) loss on sale of premises and equipment	(23)	(2)
Net (gain) loss on sale of branches	(753)	0
Net (gain) loss on sale of securities available-for-sale	(52)	0
Net securities amortization	791	761
Change in taxes payable	904	(3,508)
Change in income receivable	467	(1,233)
Change in accrued expenses payable	(580)	5,697
Change in other assets	(1,984)	(530)
Change in other liabilities	332	(246)
Total adjustments	2,122	4,371
Net cash from operating activities	9,389	11,389
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of securities available-for-sale	39,700	30,417
Purchases of securities available-for-sale	(34,469)	(43,667)
Net increase in total loans	(30,520)	(41,613)
Proceeds from sales of land, premises and equipment	0	436
Purchases of land, premises and equipment	(1,361)	(1,324)
Net payments from branch divestitures	(40,325)	0
Net cash from investing activities	(66,975)	(55,751)

(Continued)

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2001 and 2000
(in thousands)

(Unaudited)

	2001	2000
Cash flows from financing activities:		
Net increase (decrease) in total deposits	$ 36,773	$ 54,894
Proceeds from short-term borrowings	23,303,700	17,083,485
Payments on short-term borrowings	(23,306,611)	(17,101,027)
Payments on long-term borrowings	(33)	(5,030)
Dividends paid	(2,486)	(2,259)
Purchase of treasury stock	(126)	(123)
Net cash from financing activities	31,217	29,940
Net increase (decrease) in cash and cash equivalents	(26,369)	(14,422)
Cash and cash equivalents at beginning of the period	88,993	63,104
Cash and cash equivalents at end of the period	$ 62,624	$ 48,682
Cash paid during the period for:		
Interest	$ 32,646	$ 30,913
Income taxes	$ 2,395	$ 3,642
Loans transferred to other real estate	$ 1,435	$ 0

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

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This report is filed for Lakeland Financial Corporation (the Company) and its wholly owned subsidiaries, Lake City Bank (the Bank) and Lakeland Capital Trust (Lakeland Trust). All significant inter-company balances and transactions have been eliminated in consolidation. Also included is the Bank's wholly-owned subsidiary, LCB Investments Limited (LCB Investments).

The consolidated financial statements have been prepared by the Company, without audit and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures are adequate and do not make the information presented misleading.

It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest annual report to shareholders and Form 10-K. In preparing financial statements in conformity with generally accepted accounting principles, management must make estimates and assumptions. These estimates and assumptions affect the amounts reported and the disclosures provided. Results for the periods ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. In the opinion of management, all adjustments (consisting only of normal, recurring adjustments) which are necessary for a fair statement of the results for interim periods are reflected in the quarterly statements.

The Company formed Lakeland Trust in July 1997. Lakeland Trust issued $20 million of 9% Cumulative Trust Preferred Securities (Preferred Securities). The Preferred Securities issued by Lakeland Trust are presented as a separate line item as long-term debt in the consolidated balance sheets of the Company. The securities are captioned "Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures". The Company records distributions payable on the Preferred Securities as interest expense in its consolidated statements of income.

LCB Investments is a single purpose, wholly-owned subsidiary of the Bank that began operation in November 1999. Its principal office is in Bermuda, and it was formed to manage a portion of the securities portfolio of the Bank.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141. "Business Combinations." SFAS No. 141 requires all business combinations within its scope to be accounted for using the purchase method, rather than the pooling-of-interests method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. The adoption of this Statement will only impact the Company's financial statements if it enters into a business combination.

Also in June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets", which addresses the accounting for such assets arising from prior and future business combinations. Upon adoption of this Statement, goodwill arising from business combinations will no longer be amortized, but rather will be assessed regularly for impairment, with any such impairment recognized as a reduction in earnings in the period identified. Other identified intangible assets, such as core deposit intangible assets, will continue to be amortized over their useful lives. The Company is required to adopt this Statement on January 1, 2002 and early adoption is not permitted. The Company is in the process of analyzing the impact of this Statement on its financial statements.

NOTE 2. EARNINGS PER SHARE

Basic earnings per common share is based upon weighted-average common shares outstanding. Diluted earnings per common share shows the dilutive effect of additional common shares issueable.

The common shares outstanding for the shareholders' equity section of the consolidated balance sheet at September 30, 2001 reflects the acquisition of 38,352 shares of Company common stock to offset a liability for a directors' deferred compensation plan. These shares are treated as outstanding when computing the weighted-average common shares outstanding for the calculation of both basic and diluted earnings per share.

A reconciliation of the numerators and denominators of the basic earnings per common share and the diluted earnings per common share for the periods ended September 30, 2001 and 2000 follows. All amounts are in thousands except share data.

	For the three months ended September 30,		For the nine months ended September 30,	
	2001	2000	2001	2000
Basic earnings per common share				
Net income	$ 2,767	$ 2,315	$ 7,267	$ 7,018
Weighted-average common shares outstanding	5,813,984	5,813,984	5,813,984	5,813,984
Basic earnings per common share	$ .48	$ .40	$ 1.25	$ 1.21
Diluted earnings per common share				
Net income	$ 2,767	$ 2,315	$ 7,267	$ 7,018
Weighted-average common shares outstanding for basic earnings per common share	5,813,984	5,813,984	5,813,984	5,813,984
Add: dilutive effect of assumed exercises of stock options	39,764	23	22,565	250
Average common shares and dilutive potential common shares	5,853,748	5,814,007	5,836,549	5,814,234
Diluted earnings per common share	$ .47	$ .40	$ 1.25	$ 1.21

For the nine-month periods ending September 30, 2001 and 2000 stock options for 303,270 and 353,670 shares of common stock were not considered in computing diluted earnings per common share because they were antidilutive. For the three-month periods ending September 30, 2001 and 2000 stock options for 219,920 and 446,809 were not considered in computing diluted earnings because they were antidilutive.

NOTE 3. STOCK OPTIONS

The Lakeland Financial Corporation 1997 Share Incentive Plan reserves 600,000 shares of common stock for which Incentive Share Options (ISO) and Non-Qualified Share Options (NQSO) may be granted to employees of the Company and its subsidiaries, and NQSOs which may be granted to directors of the Company. Most options granted under this plan were issued for 10-year periods with full vesting five years from the date the option was granted. Information about options granted, exercised and forfeited during 2001 follows:

	Number of Options	Weighted Exercise Price	Risk-Free Rate	Stock Price Volatility	Fair Value of Grants
Outstanding 1/1/01	454,770				
Granted 1/9/01	134,025	$ 13.63	4.73%	62.45%	$ 5.92
Granted 5/8/01	1,000	$ 14.00	4.74%	63.89%	$ 5.99
Granted 6/12/01	3,000	$ 14.25	4.80%	64.01%	$ 6.15
Exercised	0				
Forfeited	42,300	$ 21.27			
Outstanding 9/30/01	550,495				

The fair values of the options were estimated using an expected life of 5 years and expected dividends of $.15 per quarter. There were 24,500 options exercisable as of September 30, 2001.

The Company accounts for the stock options under APB 25. Statement of Financial Accounting Standards (SFAS) No. 123 requires pro forma disclosures for companies that do not adopt its fair value accounting method for stock-based compensation. The following pro forma information presents net income, basic earnings per common share and diluted earnings per common share had the fair value method been used to measure compensation cost for stock option plans. No compensation cost was actually recognized for stock options in 2001 or 2000.

	For the three months ended September 30,		For the nine months ended September 30,	
	2001	2000	2001	2000
Net income as reported	$ 2,767	$ 2,315	$ 7,267	$ 7,018
Pro forma net income	$ 2,577	$ 2,097	$ 6,683	$ 6,538
Basic earnings per common share as reported	$ .48	$ .40	$ 1.25	$ 1.21
Diluted earnings per common share as reported	$ .47	$ .40	$ 1.25	$ 1.21
Pro forma basic earnings per common share	$ .44	$ .36	$ 1.15	$ 1.12
Pro forma diluted earnings per common share	$ .44	$ .36	$ 1.15	$ 1.12

NOTE 4. PENSION PLAN CURTAILMENT

On April 1, 2000 the Lake City Bank Pension Plan was frozen. As a result of this curtailment, a $500,000 gain was recognized in the second quarter of 2000. The gain is included in salaries and employee benefits.

NOTE 5. BRANCH DIVESTITURE

On September 22, 2001 the Company sold five southern market offices to First Farmers Bank and Trust of Converse, Indiana. The offices included in the sale are located in the following Indiana cities: Peru, Greentown, Wabash, Roann, and Logansport. Collectively, the offices had approximately $70.3 million in deposits, $24.4 million in loans, $2.7 million in intangible assets, $2.2 million in fixed assets and $0.4 million in vault cash. The sale resulted in a gain of $753,000. Management believes the sale of these non-strategic branches will 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.

NOTE 6. SECURITIES AVAILABLE-FOR-SALE

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	(in thousands)		
September 30, 2001			
U.S. Treasury securities	$ 32,104	$ 394	$ 0
U.S. Government agencies and corporations	6,890	235	0
Mortgage-backed securities	214,433	6,339	(542)
State and municipal securities	35,242	313	(250)
Other debt securities	5,906	119	(14)
Total securities available-for-sale at September 30, 2001	$ 294,575	$ 7,400	$ (806)
December 31, 2000			
U.S. Treasury securities	$ 38,066	$ 212	$ (183)
U.S. Government agencies and corporations	6,550	0	(122)
Mortgage-backed securities	207,594	1,809	(1,714)
State and municipal securities	35,430	214	(200)
Other debt securities	5,968	9	(368)
Total securities available-for-sale at December 31, 2000	$ 293,608	$ 2,244	$ (2,587)

The fair value of available-for-sale debt securities by maturity as of September 30, 2001, 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	$ 28,775
Due after one year through five years	13,914
Due after five years through ten years	2,238
Due after ten years	35,215
	80,142
Mortgage-backed securities	214,433
Total debt securities	$ 294,575

NOTE 7. LOANS

	September 30, 2001	December 31, 2000
	(in thousands)	
Commercial and industrial loans	$ 465,104	$ 440,941
Agri-business and agricultural loans	55,086	48,558
Real estate mortgage loans	42,918	49,104
Real estate construction loans	2,241	3,627
Installment loans and credit cards	157,183	176,646
Total loans	$ 722,532	$ 718,876
Impaired loans	$ 2,359	$ 1,413
Non-performing loans	$ 2,040	$ 8,410

Part 1
LAKELAND FINANCIAL CORPORATION
ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
and
RESULTS OF OPERATION

September 30, 2001

OVERVIEW

Lakeland Financial Corporation (the "Company") is the holding company for Lake City Bank. The Company is headquartered in Warsaw, Indiana and operates 40 offices in 11 counties in northern Indiana. The Company earned $7.3 million for the first nine months of 2001 versus $7.0 million in the same period of 2000. During the third quarter of this year, earnings were $2.8 million, versus $2.3 million in the third quarter of 2000. The increase was primarily caused by increases in non-interest income driven by a one-time gain of $753,000 on the sale of five non-strategic branches during the third quarter of 2001, coupled with year-to-date increases of $437,000 in trust and brokerage fees and $443,000 in service charges on deposit accounts. Offsetting these positive impacts was an increase in the provision for loan losses of $878,000 in the third quarter of 2001 versus the same quarter in 2000. In addition, during the third quarter, the Company's net interest margin increased to 3.81% from 3.71% in the third quarter of 2000. During the first nine months of the year, the Company's net interest margin decreased 12 basis points from 3.75% to 3.63% versus the comparable period in 2000. The decrease occurred as a result of a 3.50% reduction in Lake City Bank's prime rate which was driven by corresponding cuts by the Federal Reserve Bank during the first nine months of 2001. Given the Company's balance sheet structure, a declining interest rate environment will generally lead to a lower net interest margin and lower net interest income.

Since September 30, 1996, total Company assets have increased 80.0%, from $624.9 million to $1.125 billion at September 30, 2001, a 12.5% annual compound growth rate. This growth was accomplished through continued growth in existing branch offices and de-novo branch activity in existing and new markets, and acquisitions. Shareholders' equity has increased 82.0% from $40.6 million to $73.9 million over the same time period, a 12.8% annual compounded growth rate. Net income for the nine months ended September 30, 1996 compared to the net income for the same period of 2001, increased 52.1% from $4.8 million to $7.3 million. From September 30, 1996, to September 30, 2001, the number of Lake City Bank branch offices increased from 32 to 40, taking into account the sale of the five non-strategic branches during the third quarter of 2001. The capital necessary to support this growth has been provided through results of operation, issuance of trust preferred securities and existing capital. It should be noted that historical rates of growth may not be indicative of growth in future periods.

Forward-looking Statements

This release may contain forward-looking statements. Forward-looking statements are identifiable by the inclusion of such qualifications as expects, intends, believes, may, likely or similar statements or variations of such terms which express views concerning trends and the future. These forward looking statements are not historical facts and instead they are expressions about management's confidence and strategies and management's expectations about new and existing programs and products, relationships, opportunities, technology and market conditions. Actual events and results may differ significantly from those described in such forward-looking statements, due to changes in the general economic or market conditions, government regulation, competition or other factors. For additional information about these factors, please review our filings with the Securities and Exchange Commission.

The Company wishes to caution readers not to place undo reliance on any such forward-looking statements, which speak only as of the date made, and advise readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The forward-looking statements contained in this report are made only as of the date of this report.

FINANCIAL CONDITION

Assets

Total assets of the Company were $1.125 billion as of September 30, 2001, a decrease of $24.1 million, or 2.1%, when compared to $1.149 billion as of December 31, 2000. Total loans were $722.5 million at September 30, 2001, an increase of $3.7 million, or 0.5%, versus the December 31, 2000 balance. Total securities increased $1.0 million, or 0.3%, to $294.6 million as of September 30, 2001, versus $293.6 million at December 31, 2000. Earning assets increased to $1.016 billion as of September 30, 2001, an increase of $6.3 million, or 0.6%, versus the December 31, 2000, total of $1.010 billion. As detailed in Note 5, approximately $29.7 million in assets were divested in the southern branch sale.

Funding

Total deposits and securities sold under agreements to repurchase (repurchase agreements) consist of funds generated within the Company's primary market area. At September 30, 2001, this funding totaled $947.3 million. This represented a $36.1 million, or 3.7%, decrease versus December 31, 2000. The decrease was driven by the approximately $70.3 million in deposits which were divested in the southern branch sale. The decrease was primarily in non-interest bearing demand accounts, which decreased $19.5 million, or 11.9%, when compared to the balance at December 31, 2000, and interest-bearing demand accounts, which decreased $19.3 million, or 6.8%, during the same period. The decrease in non-interest bearing demand accounts was driven by a reduction in balances with public fund customers of $14.8 million. Time deposits increased $5.3 million, or 1.3%, when compared to the balance at December 31, 2000, and repurchase agreements decreased $2.6 million or 1.9%. The repurchase agreements are a combination of fixed rate contracts and variable rate corporate cash management accounts.

In addition to these local funding sources, the Company borrows through non-local sources including federal fund lines with correspondent banks, advances from the Federal Home Loan Bank of Indianapolis (FHLB) and through the Treasury, Tax and Loan program. Including these non-local sources, funding totaled $1.020 billion at September 30, 2001, a $36.4 million, or a 3.4%, decrease versus $1.057 billion as of December 31, 2000. The primary decrease in non-local funding sources was Federal Home Loan Bank advances, which are used for short-term funding needs.

Earning Assets

On an average daily basis, total earning assets increased 8.4% and 8.6%, respectively, for the nine-month and three-month periods ended September 30, 2001, as compared to the same periods in 2000. On an average daily basis, total deposits and purchased funds increased 6.4% and 6.9%, respectively, for the nine-month and three-month periods ended September 30, 2001, as compared to the same periods in 2000.

Investment Portfolio

The Company's available-for-sale portfolio is managed with consideration given to factors such as the Company's capital levels, growth prospects, asset/liability structure and liquidity needs. At September 30, 2001, the securities in the available-for-sale portfolio had a four year average life and a potential for approximately 9% price depreciation in the event that rates move up 300 basis points. If rates move down 300 basis points, the average life would be three years with approximately 2% price appreciation possible. The composition of this portfolio is primarily collateralized mortgage obligations (CMOs) and mortgage pools issued by GNMA, FNMA and FHLMC, which are directly or indirectly guaranteed by the federal government. As of September 30, 2001, all mortgage-backed securities were performing in a manner consistent with management's original expectations. Future investment activity is difficult to predict, as it is dependent upon loan and deposit trends and other factors.

Loans and Deposits

The Company had 72.0% of its loans concentrated in commercial loans at September 30, 2001 versus 68.1% as of December 31, 2000. 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. Customer diversification is accomplished through an administrative loan limit of $10.0 million. Based upon state banking regulations, the Bank's legal loan limit as of September 30, 2001, was approximately $13.4 million. Product diversification is accomplished by offering a wide variety of financing options. Management reviews the loan portfolio to ensure loans are diversified by industry. The loans in the portfolios are distributed primarily throughout the Company's principal trade area, which encompasses multiple markets in Northern Indiana.

The real estate loan portfolio is impacted by secondary market activity, which is a function of current interest rates and economic conditions. As interest rates have gradually fallen since December 31, 2000, the level of new financings and refinancings has increased. Through September 30, 2001, the Company sold mortgages totaling $42.1 million into the secondary market as compared to $15.9 million during the same period in 2000. During these same two periods, loans originated for sale totaled $43.5 million and $15.9 million, respectively. As a part of the Community Reinvestment Act commitment to making real estate financing available to a variety of customers, the Company continues to originate non-conforming loans that are held to maturity or prepayment.

Loans renegotiated as troubled debt restructurings are those loans for which either the contractual interest rate has been reduced and/or other concessions were granted to the borrower. These actions are typically taken as a result of a deterioration in the financial condition of the borrower which results in the inability of the borrower to perform under the original terms of the loan. Loans renegotiated as troubled debt restructurings totaled $0.4 million at September 30, 2001, versus $1.1 million at December 31, 2000. The loans classified as troubled debt restructurings at September 30, 2001 were performing in accordance with the modified terms.

While the trend in non-performing loans reflects improved asset quality, the Company continues to be concerned with weakening economic conditions in some of its market area as well as the country in general. A slowing economy could adversely affect cash flows for both commercial and individual borrowers, as a result of which, the Company could experience increases in problem assets, delinquencies, and losses on loans.

For the first nine months of 2001, loans increased while deposits decreased. During this nine-month period, demand accounts, which are non-interest bearing, decreased $19.5 million, or 11.9%, from $164.6 million to $145.1 million and other transaction accounts decreased $19.3 million, or 6.8%, during the same period. Time deposits increased $5.3 million, or 1.3%, during the first nine months of the year, and repurchase agreements decreased $2.6 million, or 1.9%. During this same nine-month period, loans increased $3.7 million, or 0.5%. Loan growth opportunities continue to be strong, particularly in the commercial and mortgage markets. Since 2000, the Company has strategically focused on loan growth in the commercial portfolio that historically produces higher returns than the consumer loan portfolio. The Company's loan to deposit ratio was 89.0% as of September 30, 2001, versus 85.0% at December 31, 2000.

Market and Interest Rate Risk

The Company is asset sensitive and therefore susceptible to interest rate risk. The board of directors annually reviews and approves the policy used to manage interest rate risk. The policy was last reviewed and approved in May 2001. The 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 at September 30, 2001, the net interest margin could be expected to decline in a falling rate environment and conversely, to increase in a rising rate environment. The Company, through its Asset/Liability Committee, manages interest rate risk by monitoring the computer simulated earnings impact of various rate scenarios and general market conditions. The Company then modifies its long-term risk parameters by attempting to generate the type of loans, investments, and deposits that currently fit the Company's needs, as determined by the Asset/Liability Committee. This computer simulation analysis measures the net interest income impact of various interest rate scenario changes during the next 12 months. If the change in net interest income is less than 3% of primary capital, the balance sheet structure is considered to be within acceptable risk levels. At September 30, 2001, the Company's potential pretax exposure was within the Company's policy limit.

Regional economic conditions are monitored closely to identify changes in any of the industries within the market area that may show signs of weakening. The Company did not have any industry concentrations at September 30, 2001. The commercial loan portfolio has experienced rapid growth and comprises most of the Company's loan portfolio. Commercial loans represent higher dollar loans to fewer customers and therefore higher credit risk. Pricing is adjusted to manage the higher credit risk involved with these types of loans. Fixed rate mortgage loans, which represent increased interest rate risk, are sold to the secondary market, as well as some variable rate mortgage loans. The remainder of the variable rate mortgage loans are retained.

Management, along with other financial institutions, shares a concern for the possible continued softening of the economy. Should the economic climate continue to deteriorate, borrowers may experience difficulty, and the level of non-performing loans, charge-offs and delinquencies could rise.

The investment portfolio is managed to limit the Company's exposure to risk by containing mostly CMO's which are either directly or indirectly backed by the federal government. The Company does not have a material exposure to foreign currency exchange risk, does not own any derivative financial instruments and does not maintain a trading portfolio.

The following table provides information about the Company's financial instruments used for purposes other than trading that are sensitive to changes in interest rates. For loans, securities, and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities. Additionally, the Company's historical prepayment experience is included in cash flows for residential and home equity loans and for mortgage-backed securities. For core deposits such as demand deposits, interest-bearing checking, savings and money market deposits that have no contractual maturity, the table presents principal cash flows based upon management's judgment and statistical analysis. Weighted-average variable rates are the rates in effect at the reporting date.

QUANTITATIVE MARKET RISK DISCLOSURE

	Principal/Notional Amount Maturing in: (Dollars in thousands)							Fair Value
	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total	9/30/01
Rate sensitive assets:								
Fixed interest rate loans	$ 114,402	$ 77,889	$ 86,098	$ 33,175	$ 28,193	$ 9,386	$ 349,143	$365,868
Average interest rate	8.27%	8.48%	8.21%	8.46%	7.36%	7.86%	8.24%	
Variable interest rate loans	$ 335,324	$ 1,155	$ 1,133	$ 1,125	$ 1,097	$ 35,057	$ 374,891	$375,185
Average interest rate	6.49%	8.83%	8.38%	7.97%	7.55%	5.82%	6.45%	
Fixed interest rate securities	$ 96,585	$ 55,121	$ 39,428	$ 21,305	$ 14,069	$ 58,702	$ 285,210	$291,737
Average interest rate	6.17%	6.56%	6.38%	6.63%	6.60%	5.85%	6.26%	
Variable interest rate securities	$ 290	$ 298	$ 307	$ 316	$ 326	$ 1,234	$ 2,771	$2,838
Average interest rate	4.15%	4.19%	4.14%	4.09%	4.04%	4.36%	4.23%	
Other interest-bearing assets	$ 5,121	$ 0	$ 0	$ 0	$ 0	$ 0	$ 5,121	$5,121
Average interest rate	3.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.00%	
Rate sensitive liabilities:								
Non-interest bearing checking	$ 7,543	$ 6,731	$ 1,219	$ 1,160	$ 1,697	$ 126,714	$ 145,064	$145,064
Average interest rate								
Savings & interest bearing checking	$ 20,191	$ 18,230	$ 16,190	$ 14,706	$ 11,792	$ 183,867	$ 264,976	$264,976
Average interest rate	2.32%	2.32%	2.32%	2.32%	2.32%	1.98%	2.08%	
Time deposits	$ 348,901	$ 32,362	$ 15,487	$ 2,991	$ 1,003	$ 1,044	$ 401,788	$404,923
Average interest rate	4.41%	5.14%	5.07%	5.58%	5.42%	2.53%	4.49%	
Fixed interest rate borrowings	$ 197,166	$ 11,400	$ 0	$ 0	$ 0	$ 19,311	$ 227,877	$228,125
Average interest rate	3.33%	4.24%	0.00%	0.00%	0.00%	9.26%	3.88%	

Borrowings

The Company is a member of the FHLB of Indianapolis. Membership has enabled the Company to participate in the housing programs sponsored by the FHLB, which enhances the Company's ability to offer additional programs throughout its trade area. The Company's Board of Directors has authorized borrowings of up to $100 million under the FHLB program. As of September 30, 2001, the borrowings from the FHLB totaled $41.3 million, with maturities as follows:

	September 30, 2001 (in thousands)
Due December 28, 2001	10,000
Due April 8, 2002	20,000
Due July 29, 2002	10,000
Due June 24, 2003	1,300
Due January 15, 2018	49
Total	$ 41,349

All borrowings are collateralized by residential real estate mortgages and mortgage-backed securities. Membership in the FHLB requires an equity investment in FHLB stock. The amount required is computed annually, and is based upon a formula that considers the Company's total investment in residential real estate loans, mortgage-backed securities and any FHLB advances outstanding at year-end. The Company's investment in FHLB stock at September 30, 2001, was $3.6 million.

Capital and Shareholders' Equity

The Federal Deposit Insurance Corporation's (FDIC) risk based capital regulations require that all banks maintain an 8.0% total risk based capital ratio. The FDIC has also established definitions of "well capitalized" as a 5.0% Tier I leverage capital ratio, a 6.0% Tier I risk based capital ratio and a 10.0% total risk based capital ratio. All of the Bank's ratios continue to be above "well capitalized" levels.

The Company's and Bank's actual capital amounts and ratios are presented in the following table (in thousands):

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2001						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 90,846	11.17%	$ 65,074	8.00%	$ 81,343	10.00%
Bank	$ 89,363	11.01%	$ 64,923	8.00%	$ 81,154	10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 83,254	10.23%	$ 32,537	4.00%	$ 48,806	6.00%
Bank	$ 81,770	10.08%	$ 32,462	4.00%	$ 48,692	6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 83,254	7.51%	$ 44,344	4.00%	$ 55,431	5.00%
Bank	$ 81,770	7.21%	$ 45,394	4.00%	$ 56,743	5.00%
As of December 31, 2000						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 82,537	10.24%	$ 64,496	8.00%	$ 80,621	10.00%
Bank	$ 81,020	10.06%	$ 64,434	8.00%	$ 80,542	10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 75,414	9.35%	$ 32,248	4.00%	$ 48,372	6.00%
Bank	$ 73,896	9.17%	$ 32,217	4.00%	$ 48,325	6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 75,414	7.20%	$ 41,874	4.00%	$ 52,343	5.00%
Bank	$ 73,896	7.06%	$ 41,850	4.00%	$ 52,313	5.00%

Total shareholders' equity as of September 30, 2001 increased $9.0 million, or 13.8%, to $73.9 million when compared to December 31, 2000. Net income of $7.3 million, less dividends of $2.6 million, plus the increase in the accumulated other comprehensive income of $4.4 million, less $126,000 for the cost of treasury stock acquired, comprised this increase. The Company has adopted a dividend reinvestment and stock purchase plan that became available to the Company's shareholders in July, 2000. The purpose of the dividend reinvestment plan is to provide participating shareholders with a simple and convenient method of investing cash dividends paid by the Company on its shares of common stock into additional shares of common stock. Shares acquired under the plan are purchased in the open market. All of the Company's shareholders of record are eligible to participate in the plan.

RESULTS OF OPERATIONS

Net Income

Net income was $7.3 million for the first nine months of 2001, versus $7.0 million in the same period in 2000. For the three months ended September 30, 2001, net income was $2.8 million compared to $2.3 million for the three months ended September 30, 2000. Basic earnings per share for the first nine months of 2001 was $1.25 per share, versus $1.21 per share for the first nine months of 2000, and $.48 per share for the third quarter of 2001 compared to $.40 per share for the same period of 2000. 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 first nine months of 2001 was $1.25 per share, versus $1.21 per share for the first nine months of 2000, and $.47 per share for the third quarter of 2001 compared to $.40 per share for the same period of 2000.

Net Interest Income

For the nine-month period ended September 30, 2001, net interest income totaled $27.4 million, an increase of 5.1%, or $1.3 million, versus the first nine months of 2000. For the three-month period ended September 30, 2001, net interest income totaled $9.9 million, an increase of 13.1%, or $1.1 million, over the same period of 2000. Net interest income increased in both the three and nine month periods during 2001, primarily as a result of the increase in average earning assets, and despite a decline in the Company's net interest margin from 3.75% to 3.63%.

During the first nine months of 2001, total interest and dividend income increased $0.4 million, or 0.6%, to $59.4 million, versus $59.0 million during the same nine months of 2000. Interest and dividend income decreased $1.1 million, or 5.4%, for the third quarter of 2001, compared to the 2000 quarter. Daily average earning assets for the first three quarters of 2001 increased 8.4% to $1.034 billion versus the same period in 2000. For the third quarter, the daily average earning assets increased 8.6% to $1.052 billion versus the same period in 2000. The tax equivalent yield on average earning assets decreased by 61 basis points to 7.7% for the nine-month period ended September 30, 2001 versus the same period of 2000. For the three-month period ended September 30, 2001, the yield decreased 113 basis points to 7.2% from the yield for the three-month period ended September 30, 2000.

The decrease in the yield on average earning assets reflected decreases in the yields on both loans and securities caused by the falling interest rate environment. The yield on securities is historically lower than the yield on loans, and decreasing the ratio of securities to total earning assets will normally raise the yield on earning assets. The ratio of average daily securities to average earning assets for the nine-month and three-month periods ended September 30, 2001 were 28.4% and 27.8% compared to 29.0% and

29.1% for the same periods of 2000. In addition, the overall tax equivalent yield on loans decreased 70 and 136 basis points to 8.2% and 7.7% when comparing the nine-month and three-month periods. The yield on securities decreased 32 basis points to 6.4% and 44 basis points to 6.2% when comparing the nine-month and three-month periods.

The average daily loan balances for the first nine months of 2001 increased 8.4% to $728.1 million, over the average daily loan balances of $671.5 million for the same period of 2000. The average daily loan balances for the three-months ended September 30, 2001 increased 9.2% to $743.7 million over the average daily loan balances of $681.2 million for the same period in 2000. This loan growth was primarily funded by increases in deposits. The 0.1% increase in loan interest income of $0.1 million for the nine-month period in 2001 versus the same period in 2000 resulted from loan growth. The 6.5% decrease in loan interest income of $1.0 million in the three-month period ended September 30, 2001, versus the same period in 2000, resulted from a decrease in yields.

Income from securities totaled $13.5 million for the first nine months of 2001, an increase of $139,000, or 1.0%, versus the same period of 2000. The income from securities for the three-month period ended September 30, 2001 was $4.4 million, a decrease of $127,000, or 2.8%, versus the same period of 2000. The increase for the nine-month period resulted from an increase in average daily balances of securities offset by the decrease in yields on securities. The average daily balances of securities for the nine-month period ended September 30, 2001 increased $16.8 million to $294.0 million when compared to the same period of the prior year. For the three-month period ended September 30, 2001, the average daily balances of securities increased $11.2 million to $292.7 million when compared to the same period of 2000.

Income from short-term investments amounted to $416,000 for the nine-month period and $140,000 for the three-month period ended September 30, 2001. This compares to $240,000 and $97,000 for the same periods in 2000. The increase of $176,000 for the nine-month period of 2001 over the same period in 2000 resulted primarily from a $6.9 million increase in average daily assets to $12.0 million. The increase of $43,000 for the three-month period in 2001 over the same period in 2000 was the result of a $9.9 million increase in average daily earning assets to $15.8 million.

Total interest expense decreased $1.0 million or 2.9% to $31.9 million for the nine-month period ended September 30, 2001, from $32.9 million for the comparable period in 2000, and decreased $2.3 million or 19.4% to $9.4 million for the three-month period ended September 30, 2001, from $11.7 million for the comparable period in 2000. This was primarily a result of a 39 basis point decrease in the Company's daily cost of funds. On an average daily basis, total deposits (including demand deposits) increased 8.7% and 7.9% for the nine and three-month periods ended September 30, 2001, as compared to the same periods in 2000. When comparing the same periods, the average daily balances of the demand deposit accounts rose $2.4 million and $6.6 million, while the average daily balances of savings and transaction accounts combined increased $4.0 million and $2.2 million. The average daily balance of time deposits, which pay a higher rate of interest compared to demand deposit and transaction accounts, increased $61.3 million for the nine months ended September 30, 2001 versus the same period in 2000. For the three-month period ended September 30, 2001, the average daily balance of time deposits increased $53.7 million versus the same period in 2000. This increase was driven by the loan growth which required additional funding. During the remainder of 2001, management plans to continue efforts to grow relationship type accounts such as demand deposit and Investors' Weekly accounts, which pay a lower rate of interest compared to time deposit accounts and are generally viewed by management as stable and reliable funding sources. Average daily balances of borrowings decreased $5.1 million for the nine months ended September 30, 2001 versus the same period in 2000. For the three-month period ended September 30, 2001, the average daily balance of borrowings increased $5.6 million versus the same period in 2000. The rate on borrowings decreased 110 and 191 basis points when comparing the same periods. On an average daily basis, total deposits (including demand deposits) and purchased funds increased 6.4% and 6.9% for the nine and three-month periods ended September 30, 2001 versus the same periods in 2000.

Provision for Loan Losses

The Company maintains the allowance for loan losses at a level that is deemed appropriate based upon a number of factors, including loan loss experience, the nature of the portfolio, the growth of the portfolio and the evaluation of current economic conditions. Special consideration is given to watch list loans, non-performing loans and non-accrual loans, as well as other factors that management feels deserve recognition. The Company maintains a quarterly loan review program designed to provide reasonable assurance that the allowance is maintained at an appropriate level and that changes in the status of loans are reflected in the financial statements in a timely manner. The adherence to this policy may result in fluctuations in the provision for loan losses. Consequently, the increase in net interest income before provision for loan losses, discussed above, may not necessarily flow through to the net interest income after provision for loan losses.

The provision amounted to $1,490,000 and $707,000 for the nine-month periods ended September 30, 2001 and 2000, respectively. For the three-month periods ended September 30, 2001 and 2000, the provision amounted to $970,000 and $92,000, respectively. The increase in the provisions reflect a number of factors, including the increase in the size of the loan portfolio, the increase in net charge-offs, the amount of impaired loans and management's overall view on current credit quality.

Net loan charge-offs increased to $1.02 million during the first nine-months of 2001 versus $0.28 million during the same period of 2000. During the third quarter of 2001, net loan charge-offs were $0.80 million versus $0.11 million during the third quarter of 2000. As of September 30, 2001, loans delinquent 90 days or more that were included in the accompanying financial statements as accrual loans totaled approximately $138,000 versus $6.8 million as of December 31, 2000. Reductions resulted primarily from the repayment of a $1.4 million loan from another bank, and the extension of terms of a $4.8 million loan. At September 30, 2001, loans totaling $1.9 million were on non-accrual versus $206,000 as of December 31, 2000. The increase in non-accrual loans resulted from the inclusion of three commercial loans totaling $1.6 million. These levels of non-performing loans reflect both the general economic conditions that have promoted growth and expansion in the Company's trade area during the last several years, and a credit risk management strategy that promotes diversification.

As a result of management's analysis of the adequacy of the allowance, the ratio of the allowance for loan losses to total loans was approximately 1.05% for September 30, 2001, 0.99% for December 31 and 1.00% for September 30, 2000.

As part of the loan review process, management reviews all loans classified as `special mention' or below, as well as other loans that might require classification as impaired. As of September 30, 2001, $2.4 million in loans were classified as impaired and as of December 31, 2000, $1.4 million were classified as impaired. The increase in impaired loans resulted primarily from the deterioration of five commercial loans during the third quarter.

Following is a summary of the loan loss experience for the nine months ended September 30, 2001, and the year ended December 31, 2000.

	September 30, 2001	December 31, 2000
	(in thousands)	
Amount of loans outstanding	$ 722,532	$ 718,876
Average daily loans outstanding for the period	$ 728,685	$ 659,365
Allowance for loan losses at the beginning of the period	$ 7,124	$ 6,522
Charge-offs:		
Commercial	533	200
Real estate	0	30
Installment	554	483
Credit card and personal credit lines	55	35
Total charge-offs	1,142	748
Recoveries:		
Commercial	1	45
Real estate	16	0
Installment	99	93
Credit card and personal credit lines	4	6
Total recoveries	120	144
Net charge-offs	1,022	604
Provision charged to expense	1,490	1,206
Allowance for loan losses at the end of the period	$ 7,592	$ 7,124
Ratio of annualized net charge-offs during the period to average daily loans during the period:		
Commercial	0.10%	0.02%
Real estate	0.00%	0.01%
Installment	0.08%	0.06%
Credit card and personal credit lines	0.01%	0.00%
Total	0.19%	0.09%

Net interest income after provision for loan losses totaled $26.0 million and $8.9 million for the nine and three month periods ended September 30, 2001. This represented increases of 2.2% and 3.1% over the same periods ended September 30, 2000.

Noninterest Income

Noninterest income categories for the nine and three-month periods ended September 30, 2001, and 2000 are shown in the following tables:

	Nine Months ended September 30,		
	2001	2000	Percent Change
	(in thousands)		
Trust and brokerage fees	$ 2,023	$ 1,586	27.6 %
Service charges on deposits	3,747	3,304	13.4
Other income (net)	2,180	2,478	(12.0)
Net gain on the sale of branches	753	0	100.0
Net gains on the sale of real estate mortgages held-for-sale	792	366	116.4
Net securities gains	52	0	100.0
Total noninterest income	$ 9,547	$ 7,734	23.4 %

	Three Months ended September 30,		
	2001	2000	Percent Change
	(in thousands)		
Trust and brokerage fees	$ 600	$ 530	13.2 %
Service charges on deposits	1,295	1,109	16.8
Other income (net)	710	871	(18.5)
Net gains on the sale of branches	753	0	100.0
Net gains on the sale of real estate mortgages held-for-sale	348	128	171.9
Net securities gains	50	0	100.0
Total noninterest income	$ 3,756	$ 2,638	42.4 %

Trust fees increased 12.4% in the first nine months of 2001 versus the same period in 2000. This increase was primarily in agency and living trust fees. Brokerage fees increased $308,000, or 57.2%, in the first nine months of 2001 versus the same period in 2000, driven by fees of approximately $156,000 related to the sale of several annuity accounts. This portion of the increase may be non-recurring. Excluding these fees, brokerage revenues increased by 28.2% in the first nine months of 2001 versus the comparable period in 2000.

The primary sources of the increase in service charges on deposit accounts were fees related to business checking accounts.

Other income consists of normal recurring fee income such as mortgage service fees, credit card fees, insurance fees, and safe deposit box rent, as well as other income that management classifies as non-recurring. Other fee income decreased $298,000 in the first nine months of 2001 versus the same period in 2000, and $161,000 in the third quarter versus the same period in 2000. The decrease in mortgage service fee income was due to charges of $471,000 and $175,000, respectively, during the nine month and three month periods ending September 30, 2001, related to the non-cash impairment of the Bank's mortgage servicing rights. The impairment was a direct result of the decline in interest rates during the first nine months of 2001. Excluding these non-cash charges, other income would have increased 7.0% and 1.6%, respectively, in the first nine months and third quarter versus the same periods in 2000.

During the third quarter of 2001, the Company sold five non-strategic branches resulting in a gain of $753,000. Excluding this one-time gain, total non-interest income increased by 13.7% and 13.8%, respectively, in the first nine months and third quarter versus the same periods in 2000.

The increase in profits from the sale of mortgages reflected an increase in the volume of mortgages sold during the first nine months of 2001 versus sales during the first nine months of 2000. This increase in volume was a result of the falling interest rate environment and an increase in demand for home mortgages. Management does not anticipate that this trend will shift during the balance of 2001.

Noninterest Expense

Noninterest expense categories for the nine and three-month periods ended September 30, 2001, and 2000 are shown in the following tables:

	Nine Months ended September 30,		
	2001	2000	Percent Change
	(in thousands)		
Salaries and employee benefits	$ 13,202	$ 11,881	11.1 %
Occupancy and equipment expense	3,668	3,866	(5.1)
Other expense	8,067	7,272	10.9
Total noninterest expense	$ 24,937	$ 23,019	8.3 %

	Three Months ended September 30,		
	2001	2000	Percent Change
	(in thousands)		
Salaries and employee benefits	$ 4,616	$ 4,257	8.4 %
Occupancy and equipment expense	1,158	1,277	(9.3)
Other expense	2,796	2,471	13.2
Total noninterest expense	$ 8,570	$ 8,005	7.1 %

The increase in salaries and employee benefits reflected normal salary increases and higher employee insurance premiums combined with a pension plan curtailment gain of $500,000 recognized in the second quarter of 2000. Excluding the pension plan curtailment gain, salaries and employee benefits increased by 6.6% for the nine-month period ending September 30, 2001. Total employees decreased to 476 at September 30, 2001, from 479 at September 30, 2000. This decrease resulted primarily from the reduction in staff in connection with the sale of the five non-strategic branches in September, 2001, taking into account the growth of the Company, driven by the addition of three new offices since September 30, 2000, which required additional staffing.

The decrease in occupancy and equipment expense was the result of closing two offices in the second quarter of 2000, combined with the sale of five offices in the third quarter of 2001.

Other expense includes corporate and business development, data processing fees, telecommunications, postage, and professional fees such as legal accounting, and director's fees. Other expense increased primarily due to costs associated with the Bank's compliance with new regulations regarding the Privacy Policy, as well as increases in professional fees and losses related to robberies during the year.

Income Before Income Tax Expense

Income before income tax expense increased $446,000, or 4.4%, to $10.6 million for the first nine months of 2001, versus $10.1 million for the same period in 2000. For the three months ended September 30, 2001, income before income taxes was $4.1 million versus $3.3 million for the same period in 2000. This was due primarily to the increase in other non-interest income.

Income Tax Expense

Income tax expense decreased $197,000, or 6.4%, for the first nine months of 2001, compared to the same period in 2000. Income tax expense for the third quarter of 2001 increased $371,000, or 38.1%, compared to the third quarter of 2000.

The combined state franchise tax expense and the federal income tax expense as a percentage of income before income tax expense increased to 31.2% during the first nine months of 2001 compared to 30.7% during the same period in 2000. It increased to 32.7% for the three months ended September 30, 2001, compared to 29.6% during the same period in 2000. The increases were primarily a result of higher state franchise tax expense.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

See "Market and Interest Rate Risk" on pages 19-21.

LAKELAND FINANCIAL CORPORATION

FORM 10-Q

September 30, 2001

Part II - Other Information

Item 1. Legal proceedings

There are no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None

b. Reports

None

LAKELAND FINANCIAL CORPORATION

FORM 10-Q

September 30, 2001

Part II - Other Information

Signatures

Pursuant to the requirements of the Securities 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
(Registrant)

Date: November 13, 2001	/s/Michael L. Kubacki Michael L. Kubacki - President and Chief Executive Officer
Date: November 13, 2001	/s/David M. Findlay David M. Findlay - Executive Vice President and Chief Financial Officer
Date: November 13, 2001	/s/Teresa A. Bartman Teresa A. Bartman - Vice President and Controller