

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

FORM 10-Q

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

For the quarterly period ended June 30, 1996

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 (I.R.S. Employer  
incorporation or organization) 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.

NO  YES

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 June 30, 1996
Common Stock, \$.50 Stated Value	2,896,992

Part I

Item 1 - Financial Statements

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of June 30, 1996 and December 31, 1995  
(in thousands)

(Unaudited)

(Page 1 of 2)

	June 30, 1996	December 31, 1995
	-----	-----
ASSETS		
- - - - -		
Cash and cash equivalents		
Cash and due from banks	\$ 40,248	\$ 26,185
Short-term investments	409	710
	-----	-----
Total cash and cash equivalents	40,657	26,895
Securities available-for-sale		
U. S. Treasury securities	29,252	27,844
Mortgage-backed securities	49,122	51,034
State and municipal securities	2,115	2,176
Other debt securities	2,656	1,066
	-----	-----
Total securities available-for-sale (carried at fair value)	83,145	82,120
Securities held-to-maturity		
U. S. Treasury securities	17,543	13,611
Mortgage-backed securities	78,828	80,217
State and municipal securities	20,728	19,047
Other debt securities	3,266	1,013
	-----	-----
Total securities held-to-maturity (fair value of \$118,830,000 at June 30, 1996, and \$115,328,000 at December 31, 1995)	120,365	113,888
Real estate mortgages held-for-sale	424	145
Loans:		

Total loans	349,516	327,617
Less: Allowance for loan losses	5,365	5,472
	-----	-----
Net loans	344,151	322,145
Land, premises and equipment, net	14,479	13,736
Accrued income receivable	4,161	4,003
Other assets	6,445	5,647
	-----	-----
Total assets	\$ 613,827	\$ 568,579
	=====	=====

(Continued)

Part I

Item 1 - Financial Statements

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of June 30, 1996 and December 31, 1995  
(in thousands)

(Unaudited)

(Page 2 of 2)

	June 30, 1996	December 31, 1995
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
-----		
LIABILITIES		
-----		
Deposits:		
Noninterest bearing deposits	\$ 70,667	\$ 67,856
Interest bearing deposits	397,616	364,078
	-----	-----
Total deposits	468,283	431,934
Short-term borrowings		
Federal funds purchased	4,800	17,100
U.S. Treasury demand notes	3,535	1,880
Securities sold under agreements to repurchase	73,579	58,151
	-----	-----
Total short-term borrowings	81,914	77,131
Accrued expenses payable	4,776	4,481
Other liabilities	413	847
Long-term debt	19,432	17,432
	-----	-----
Total liabilities	574,818	531,825
Commitments, off-balance sheet risks and contingencies		
STOCKHOLDERS' EQUITY		
-----		
Common stock: \$.50 stated value, 10,000,000 shares authorized, 2,896,992 shares issued and outstanding as of June 30, 1996; \$1.00 stated value, 2,750,000 shares authorized, 1,438,496 shares issued and outstanding as of December 31, 1995	1,448	1,438
Additional paid-in capital	8,232	7,827
Retained earnings	29,437	26,858
Unrealized net gain (loss) on securities available-for-sale	(108)	631
	-----	-----
Total stockholders' equity	39,009	36,754
Total liabilities and stockholders' equity	\$ 613,827	\$ 568,579
	=====	=====

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

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
For the Three Months and Six Months Ended June 30, 1996, and 1995  
(in thousands except for share data)

(Unaudited)

(Page 1 of 2)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
<b>INTEREST AND DIVIDEND INCOME</b>				
-----				
Interest and fees on loans: Taxable	\$ 8,033	\$ 7,372	\$ 15,821	\$ 14,189
Tax exempt	60	56	121	121
Total loan income	8,093	7,428	15,942	14,310
Short-term investments	27	25	60	90
Securities:				
U.S. Treasury and Government agency securities	696	610	1,329	1,209
Mortgage-backed securities	2,026	1,869	4,014	3,654
Obligations of state and political subdivisions	346	227	686	453
Other debt securities	79	97	170	198
Total interest and dividend income	11,267	10,256	22,201	19,914
<b>INTEREST EXPENSE</b>				
-----				
Interest on deposits	4,485	4,088	9,033	7,820
Interest on short-term borrowings	992	894	1,867	1,726
Interest on long-term debt	277	250	549	495
Total interest expense	5,754	5,232	11,449	10,041
<b>NET INTEREST INCOME</b>	5,513	5,024	10,752	9,873
-----				
Provision for loan losses	30	30	60	60
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	5,483	4,994	10,692	9,813
-----				
<b>NONINTEREST INCOME</b>				
-----				
Trust fees	213	167	499	392
Service charges on deposit accounts	692	577	1,270	1,099
Other income (net)	455	316	847	618
Net gains on the sale of real estate mortgages held-for-sale	121	35	221	52
Net investment securities gains (losses)	(4)	(7)	(6)	(23)
Total noninterest income	1,477	1,088	2,831	2,138

(Continued)

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
For the Three Months and Six Months Ended June 30, 1996, and 1995  
(in thousands except for share data)

(Unaudited)

(Page 2 of 2)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
NONINTEREST EXPENSE				
-----				
Salaries and employee benefits	2,381	2,060	4,618	4,025
Occupancy and equipment expense	690	632	1,413	1,252
Other expense	1,202	1,395	2,466	2,636
	4,273	4,087	8,497	7,913
Total noninterest expense				
INCOME BEFORE INCOME TAX EXPENSE	2,687	1,995	5,026	4,038
-----				
Income tax expense	973	648	1,808	1,385
	1,714	1,347	3,218	2,653
NET INCOME	\$ 1,714	\$ 1,347	\$ 3,218	\$ 2,653
-----	=====	=====	=====	=====
AVERAGE COMMON SHARES OUTSTANDING (Note 2)	2,896,992	2,896,992	2,896,992	2,896,992
EARNINGS PER COMMON SHARE				
-----				
Net Income (Note 2)	\$ 0.59	\$ 0.47	\$ 1.11	\$ 0.92
	=====	=====	=====	=====

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

LAKELAND FINANCIAL CORPORATION  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
For the Six Months Ended June 30, 1996 and 1995  
(in thousands except for shares)

(Unaudited)

	Common Stock		Paid-in Capital	Retained Earnings	Unrealized Net Gain (Loss) on Securities Available For Sale	Total Stockholders' Equity
	Shares	Amount				
Balances, January 1, 1995	1,438,496	\$ 1,438	\$ 7,827	\$ 22,279	\$ (1,655)	\$ 29,889
Net income for six months ended June 30, 1995				2,653		2,653
Net change in unrealized net gain (loss) on securities available-for-sale					1,726	1,726
Cash dividends declared - \$.17 per share				(490)		(490)
Balances, June 30, 1995	<u>1,438,496</u>	<u>\$ 1,438</u>	<u>\$ 7,827</u>	<u>\$ 24,442</u>	<u>\$ 71</u>	<u>\$ 33,778</u>
Balances, January 1, 1996	1,438,496	\$ 1,438	\$ 7,827	\$ 26,858	\$ 631	\$ 36,754
Net income for six months ended June 30, 1996				3,218		3,218
Net change in unrealized net gain (loss) on securities available-for-sale					(739)	(739)
Issued 10,000 shares of previously authorized, unissued shares	10,000	10	405			415
Shares issued in 2-for-1 stock split	1,448,496					
Cash dividends declared - \$.22 per share				(639)		(639)
Balances, June 30, 1996	<u>2,896,992</u>	<u>\$ 1,448</u>	<u>\$ 8,232</u>	<u>\$ 29,437</u>	<u>\$ (108)</u>	<u>\$ 39,009</u>

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

Part I

LAKELAND FINANCIAL CORPORATION  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the Six Months Ended June 30, 1996 and 1995  
 (in thousands)

(Unaudited)

(Page 1 of 2)

	1996	1995
	-----	-----
Cash flows from operating activities		
Net Income	\$ 3,218	\$ 2,653
	-----	-----
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	625	560
Provision for loan losses	60	60
Loans originated for sale	(17,076)	(8,921)
Net (gain) loss on sale of loans	(221)	(52)
Proceeds from sale of loans	17,019	8,588
Net (gain) loss on sale of premises and equipment	21	0
Net (gain) loss on sale of securities available-for-sale	0	13
Net (gain) loss on calls of securities held-to-maturity	6	10
Net investment amortization (accretion)	166	99
Increase (decrease) in taxes payable	536	169
(Increase) decrease in income receivable	(159)	(322)
Increase (decrease) in accrued expenses payable	(291)	(491)
(Increase) decrease in other assets	(728)	404
Increase (decrease) in other liabilities	29	(196)
	-----	-----
Total adjustments	(13)	(79)
	-----	-----
Net cash from operating activities	3,205	2,574
	-----	-----
Cash flows from investing activities		
Proceeds from maturities and calls of securities held-to-maturity	3,818	2,713
Proceeds from maturities and calls of securities available-for-sale	5,940	3,537
Purchases of securities available-for-sale	(8,311)	(7,493)
Purchases of securities held-to-maturity	(10,343)	(10,746)
Proceeds from sales of securities available-for-sale	0	336
Net (increase) decrease in total loans	(22,066)	(18,601)
Purchases of premises and equipment	(1,389)	(1,156)
	-----	-----
Net cash from investing activities	(32,351)	(31,410)
	-----	-----

(Continued)

Part I

LAKELAND FINANCIAL CORPORATION  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the Six Months Ended June 30, 1996 and 1995  
 (in thousands)

(Unaudited)

(Page 2 of 2)

	1996	1995
	-----	-----
Cash flows from financing activities		
Net increase (decrease) in total deposits	\$ 36,349	\$ 13,393
Proceeds from short-term borrowings	389,963	243,765
Payments on short-term borrowings	(385,180)	(224,390)
Proceeds from long-term borrowings	2,000	0
Proceeds from issuance of common stock	415	0
Dividends paid	(639)	(490)
	-----	-----
Net cash from financing activities	42,908	32,278
	-----	-----
Net increase (decrease) in cash and cash equivalents	13,762	3,442
	-----	-----
Cash and cash equivalents at beginning of the period	26,895	24,147
	-----	-----
Cash and cash equivalents at end of the period	\$ 40,657	\$ 27,589
	=====	=====
Cash paid during the period for:		
Interest	\$ 11,190	\$ 9,625
	=====	=====
Income taxes	\$ 1,685	\$ 1,690
	=====	=====

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



LAKELAND FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 1996

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This report is filed for Lakeland Financial Corporation (the Corporation) and its wholly owned subsidiary, Lake City Bank (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements included herein have been prepared by the Corporation, without audit, 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 Corporation believes that the disclosures are adequate and do not make the information presented misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Corporation's latest annual report and Form 10-K. In the opinion of management, all adjustments which are necessary for a fair statement of the results for interim periods are reflected in the quarterly statements included herein.

NOTE 2. EARNINGS PER SHARE

The average common shares outstanding and the net income per share for the three months and six months ended June 30, 1996 and 1995, have been restated to reflect a two-for-one stock split. The record date for the stock split was April 30, 1996, and the new shares were issued May 15, 1996.

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

June 30, 1996

FINANCIAL CONDITION

The financial statements reflect the Corporation's continued growth within the Bank's traditional markets and expansion into new market areas. The Kendallville office of the Bank was opened on May 29, 1996, and a free-standing ATM in the Linwood Plaza, Goshen, Indiana, was opened on July 16, 1996. Construction continues on the Hubbard Hill office and it is anticipated this office will open during the third quarter of 1996. The Bank has also purchased property at 1208 N. Nappanee Street, Elkhart, Indiana, with the intent of establishing a full-service branch at that location.

Total assets of the Corporation were \$613,827,000 as of June 30, 1996. This is an increase of \$45,248,000 or 8.0 percent from \$568,579,000 reported at December 31, 1995. Total loans were \$349,516,000 at June 30, 1996. This is an increase of \$21,899,000 or 6.7 percent from the December 31, 1995, balance. Total securities (including available-for-sale (AFS) and held-to-maturity (HTM)) increased \$7,502,000 or 3.8 percent to \$203,510,000 as of June 30, 1996, from \$196,008,000 at December 31, 1995. Earning assets increased to \$548,494,000 at June 30, 1996. This is an increase of \$29,486,000 or 5.7 percent from the December 31, 1995, total of \$519,008,000.

Total deposits and securities sold under agreements to repurchase (repurchase agreements) consist primarily of funds generated within the Bank's primary market area as defined by its Community Reinvestment Act (CRA) statement. At June 30, 1996, these funds totaled \$541,862,000. This represented a \$51,777,000 or 10.6 percent increase from December 31, 1995. The growth has been primarily in certificates of deposit and repurchase agreements. Certificates of deposit increased \$37,460,000 or 14.1 percent from the balance at December 31, 1995. The repurchase agreement balance increased \$15,428,000 or 26.5 percent from the balance at December 31, 1995. The repurchase agreement balance is a combination of fixed rate contracts and a variable rate repurchase agreement product. In addition to these local funding sources, the Bank borrows modestly through the Treasury, Tax and Loan program, occasionally through federal fund lines with correspondent banks and through term advances from the Federal Home Loan Bank of Indianapolis (FHLB).

Including these non-local sources, funding totaled \$569,629,000 at June 30, 1996. This is a \$43,132,000 or 8.2 percent increase from \$526,497,000 reported at December 31, 1995.

On an average daily basis, total earning assets increased 14.5 percent and 14.5 percent for the three month period and the six month period ended June 30, 1996, respectively, as compared to similar periods ended June 30, 1995. On an average daily basis, total deposits and purchased funds increased 14.5 percent and 14.0 percent for the three month period and six month period ended June 30, 1996, as compared to the three month period and six month period ended June 30, 1995.

The Bank's investment portfolio consists of U.S. Treasuries, agencies, mortgage-backed securities, municipal bonds, and corporates. During 1996, new investments have been primarily U.S. Treasuries, municipal bonds and mortgage-backed securities. At June 30, 1996, and December 31, 1995, the Bank's investment in mortgage-backed securities comprised approximately 62.9 and 67.0 percent, respectively, of the total securities and consisted mainly of CMO's and mortgage pools issued by GNMA, FNMA and FHLMC. As such, these securities are backed directly or indirectly by the Federal Government. All mortgage-backed securities purchased conform to the FFIEC high risk standards which prohibit the purchase of securities that have excessive price, prepayment, extension and original life risk characteristics. The Bank uses Bloomberg analytics to evaluate and monitor all purchases. At June 30, 1996, the mortgage-backed securities in the HTM portfolio had a three year average life, with approximately 9 percent price volatility should rates move up or down 300 basis points. The mortgage-backed securities in the AFS portfolio had a two year average life and a potential for approximately 6 percent price depreciation should rates increase 300 basis points and approximately 4 percent price appreciation should rates move down 300 basis points. As of June 30, 1996, all mortgage-backed securities continue to be in compliance with FFIEC guidelines and are performing in a manner consistent with management's original expectations.

The Bank's AFS portfolio is managed with consideration given to factors such as the Bank's capital levels, growth prospects, asset/liability structure and liquidity needs. At June 30, 1996, the AFS portfolio constituted 40.9 percent of the total security portfolio. During the first six months of 1996 purchases for the HTM and AFS portfolios were \$10,343,000 and \$8,311,000, respectively. At June 30, 1996, the net after-tax unrealized loss in the AFS portfolio included in stockholders' equity was \$108,000, a decrease of \$739,000 from the unrealized gain included in stockholders' equity at December 31, 1995. Since the securities portfolio is primarily fixed rate, a negative equity adjustment is anticipated whenever interest rates increase. Future

investment activity is difficult to predict, as it is dependent upon loan and deposit trends.

As previously indicated, total loans increased \$21,899,000 to \$349,516,000 as of June 30, 1996, from \$327,617,000 at December 31, 1995. Loan growth is net of loans reclassified to other real estate. The Bank continues to experience good loan demand. Commercial loans at June 30, 1996, increased 7.2 percent from the level at December 31, 1995. Retail loans at June 30, 1996, increased 10.7 percent from December 31, 1995. Real estate loans (excluding mortgages held-for-sale) decreased less than one percent from December 31, 1995. The balances in the real estate loan portfolio are impacted by the sale of real estate mortgages in the secondary market and the level of refinance and new mortgage activity in the existing rate environment.

The Bank had 60.1 percent of its loans concentrated in commercial loans at June 30, 1996, and 59.8 percent at December 31, 1995. Traditionally, this type of lending may have more credit risk than other types of lending. This is attributed to the fact that individual commercial loans are generally larger than residential real estate and retail loans, and because the type of borrower and purpose of commercial loans are not as homogeneous as with residential and retail customers. The Bank manages this risk by 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 a relatively low administrative loan limit of \$4,000,000. 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 loan portfolios are distributed throughout the Bank's principal trade area, which encompasses eight counties in Indiana. Other than loans disclosed elsewhere in this filing as past-due, nonaccrual or restructured, the Bank is not aware of any loans classified for regulatory purposes at June 30, 1996, that are expected to have a material impact on the Bank's future operating results, liquidity or capital resources. The Bank is not aware of any material credits in which there is serious doubt as to the borrower's ability to comply with the loan repayment terms, other than those disclosed as past due, nonaccrual or restructured.

The Bank continues to actively serve the mortgage needs of its CRA defined market area by originating both conforming and nonconforming real estate mortgages. During the first six months of 1996 the Bank originated mortgages for sale totaling \$11,784,000 as compared to \$4,043,000 during the first six months of 1995. This program of mortgage sales continues to produce the liquidity needed to meet the mortgage needs of the markets served by the Bank, and to generate a long-term servicing portfolio. As a part of the CRA

commitment to making real estate financing available in all markets, the Bank continues to originate non-conforming loans which are held to maturity or prepayment. The Bank also meets the mortgage needs of low and moderate income families by originating mortgages for sale to the FHLMC Affordable Gold program.

Loans renegotiated as troubled debt restructuring are those loans for which either the contractual interest rate has been reduced and/or other concessions are granted to the borrower because of a deterioration in the financial condition of the borrower which results in the inability of the borrower to meet the terms of the loan. Loans renegotiated as troubled debt restructuring totaled \$1,404,000 at June 30, 1996, as compared to \$1,432,000 at December 31, 1995. The loans classified as troubled debt restructuring at June 30, 1996, are performing in accordance with the modified terms.

The Indiana State legislature has enacted laws relating to a state chartered bank's legal lending limit, by adopting the basic regulations applied by the Office of the Comptroller of the Currency (OCC) to national banks. These guidelines set overall limits on lending activity, but actual bank limits are subject to Board of Director approval. Based upon these new regulations, the Bank's June 30, 1996 legal loan limit was approximately \$6,600,000. The legal loan limit will continue to increase as the Bank's combined equity and allowance for loan losses continues to increase. At its January 9, 1996 meeting, the Bank's Board of Directors modestly increased the Bank's policy limit by \$500,000, to \$4,000,000 for any one borrower. With a relatively low administrative loan limit of \$4,000,000, the Bank's loan portfolios consist primarily of loans to consumers and small businesses.

For the first six months of 1996, deposits have been increasing faster than loans. However, the increase in loans is affected by the sale of mortgage loans in the secondary market as discussed earlier. While demand accounts have increased \$2,811,000 during the first six months of 1996, other transaction accounts have decreased \$3,922,000 during the same period. During this period there has been significant increases in time deposits and in repurchase agreements which increased \$37,460,000 or 14.1 percent and \$15,428,000 or 26.5 percent respectively, reflecting consumer preferences and the current rate environment. During this six month period, loans increased \$21,899,000 or 6.7 percent. As a result of these loan and deposit trends, the Bank's average daily loans/deposits ratio amounted to 75.8 percent at June 30, 1996, which is unchanged from the ratio at year-end 1995. The Bank's average daily loans/total deposits and repurchase agreements ratio amounted to 68.7 percent at June 30, 1996. This is an increase from 67.8 percent at year-end 1995.

The Bank, through its Asset/Liability Committee (ALCO), manages interest rate risk by monitoring both its GAP position and the computer simulated earnings impact of various rate scenarios. The Bank then modifies its long-term risk parameters by attempting to generate the type of loans, investments, and deposits that currently fit ALCO needs. The current long-term guideline approved by the Board of Directors defines a neutral rate sensitivity ratio (GAP/Total Assets) as plus or minus 20 percent. However, the ALCO is authorized to manage this ratio outside these limits on a short-term basis, as the committee's expectation of interest rates dictates. Management has estimated that as of June 30, 1996, the Bank's GAP/Total Assets ratios were (7.3) percent, (11.5) percent, and (13.5) percent for the three, six, and twelve month time periods, respectively. For this analysis, savings accounts have been assumed to be repricable beyond twelve months, and therefore are not included as repricable liabilities in each of these ratios. The December 31, 1995, three, six, and twelve month GAP ratios were (5.2) percent, (11.7) percent, and (12.8) percent respectively.

Management supplements the GAP analysis with a computer simulation approach to manage the interest rate risk of the Bank. This computer simulation analysis measures the net interest income impact of a 300 basis point change in interest rates during the next 12 months. If the change in net interest income is less than 3 percent of primary capital, the balance sheet structure is considered to be within acceptable risk levels. At June 30, 1996, the Bank's potential pretax exposure was within the Bank's policy limit. This policy was last reviewed and approved by the Board of Directors in May, 1996.

The Bank is a member of the FHLB of Indianapolis. Membership has enabled the Bank to participate in the housing programs sponsored by the FHLB, thereby enhancing the Bank's ability to offer additional programs throughout its trade area. At its meeting in March, 1996, the Board of Directors of the Bank passed a resolution authorizing the Bank to borrow up to \$50 million under the FHLB program. As of June 30, 1996, the borrowings from the FHLB totaled \$19,432,000 with \$1,300,000 due June 24, 2003, \$8,132,000 due January 14, 1997, and \$10,000,000 due December 18, 1998. All borrowings are collateralized by residential real estate mortgages. Membership in the FHLB requires an equity investment in FHLB stock. The amount required is computed annually, and is based upon a formula which considers the Bank's total investment in residential real estate loans, mortgage-backed securities and any FHLB advances outstanding at year-end. The Bank's investment in FHLB stock at June 30, 1996, was \$1,934,700.

The Federal Deposit Insurance Corporation's (FDIC) risk based capital

regulations require that all banks maintain an 8.0 percent Tier II risk based capital ratio. The FDIC has also established definitions of "well capitalized" as a 5.0 percent Tier I leverage capital ratio, a 6.0 percent Tier I risk based capital ratio and a 10.0 percent Tier II risk based capital ratio. As of June 30, 1996, the Bank's ratios were 6.3 percent, 10.1 percent and 11.3 percent, respectively, excluding the SFAS No. 115 adjustment. These are comparable to the ratios of 6.3 percent, 10.1 percent and 11.4 percent reported at December 31, 1995, respectively, and ratios of 6.3 percent, 10.1 percent and 11.3 percent reported at June 30, 1995, respectively. All ratios continue to be above "well capitalized" levels.

The Bank was examined by the Indiana Department of Financial Institutions (DFI) as of March 31, 1995, in June, 1995. The Bank was also examined by the FDIC as of March 31, 1996, in June, 1996. Management is not aware of any regulatory recommendations that if implemented would have a material effect on liquidity, capital or results of operations.

Total stockholders' equity increased \$2,255,000 or 6.1 percent from December 31, 1995, to \$39,009,000 at June 30, 1996. Net income of \$3,218,000, less dividends of \$639,000, and plus the change in the unrealized net gain (loss) on securities available for sale of \$(739,000), and \$415,000 from the issuance of common stock comprise this increase.

Total Bank assets have grown from \$300,126,000 at June 30, 1991, to \$613,827,000 at June 30, 1996. This is an increase of \$313,701,000 or 104.5 percent which equates to a 14.6 percent rate of growth per year. Stockholders' equity has increased from \$19,822,000 to \$39,009,000 for the same time period. That is an increase of \$19,187,000 or 96.8 percent which equates to a 14.5 percent rate of growth per year. Net income for the six months ended June 30, 1991, compared to the net income for the same period of 1996, increased \$1,954,000 or 154.6 percent from \$1,264,000 to \$3,218,000. From June 30, 1991, to June 30, 1996, the number of Lake City Bank offices increased from 18 to 31. This growth has been funded through results of operation and existing capital. Management anticipates the Bank will continue to fund its growth from current capital and results of operations. However, should the need arise, the Corporation would have the ability to issue additional stock as a means of pursuing growth.

#### RESULTS OF OPERATIONS

##### Net Interest Income

For the six month period ended June 30, 1996, total interest and dividend income increased \$2,287,000 or 11.5 percent to \$22,201,000, from \$19,914,000 during the same six months of 1995. Interest and dividend income increased

\$1,011,000 or 9.9 percent for the three month period ended June 30, 1996, as compared to the three month period ended June 30, 1995. Daily average earning assets for the first two quarters of 1996 increased to \$542,199,000, a 14.5 percent increase over the same period in 1995. For the second quarter alone, the daily average earning assets increased to \$551,001,000 or 14.5 percent as compared to the daily average earning assets of the second quarter of 1995. The tax equivalent yields on average earning assets decreased by 23 basis points for the six month period ended June 30, 1996, when compared to the same respective period of 1995. For the three month period ended June 30, 1996, this yield decreased 36 basis points over the yield for the three month period ended June 30, 1995.

The decline in the yield on average earning assets was mainly due to declining interest rates. The Bank's investment portfolio, which is primarily fixed rate, experienced only a 1 basis point reduction in yield between the first six months of 1996 and the first six months of 1995. However, the Bank's home equity portfolio and most of the commercial portfolio are variable rate and are tied to the Bank's base rate which is based upon the prime rate. The average prime rate was 62 basis points lower during the first six months of 1996 when compared to the same period of 1995. This resulted in a 39 basis point reduction in the overall tax equivalent yield on loans for the first two quarters of 1996 as compared to the first two quarters of 1995. Offsetting this yield reduction was good loan demand. Strong local economies, combined with lower interest rates, produced growth in average daily loan balances of 15.4 percent between the first two quarters of 1996 and the same period of 1995. This growth in loan balances, coupled with the decline in average yield, resulted in a 11.4 percent increase in total loan income to \$15,942,000 during the first six months of 1996, from \$14,310,000 reported for the first six months of 1995. For the three months ended June 30, 1996, as compared to the same period for 1995, loan income increased \$665,000 or 9.0 percent from \$7,428,000 to 8,093,000.

Total security income amounted to \$6,199,000 for the six month period ended June 30, 1996, and \$3,147,000 for the three month period ended June 30, 1996. This compares to the \$5,514,000 and \$2,803,000 recorded for the same periods in 1995. These increases in income reflect increases in average daily balances of 14.5 percent and 14.5 percent, respectively. The security yields remained relatively unchanged when comparing the yields for the six and three months ending June 30, 1996, to the same periods for 1995. For both the six and the three month comparisons the tax equivalent yield decreased only 1 basis point.

Income from short-term investments amounted to \$60,000 for the six month period ended June 30, 1996 and \$27,000 for the three month period ended June



30, 1996. This compares to \$90,000 and \$25,000 for the same respective periods in 1995. The differences in the short-term investment income for the six months ending June 30, 1996, compared to the six months ending June 30, 1995, results from a lower average balance in short-term investments during the six months of 1996, along with an 11 basis point reduction in the tax equivalent yield. The slightly higher income for the three months ending June 30, 1996, as compared to the three months ending June 30, 1995, is due to a \$181,000 increase in the average daily balance partially offset by a 6 basis point reduction in the tax equivalent yield.

Total interest expense increased \$1,408,000 or 14.0 percent to \$11,449,000 for the six month period ended June 30, 1996, from \$10,041,000 for the six month period ended June 30, 1995, and it increased \$522,000 or 10.0 percent for the three month period ended June 30, 1996, from the \$5,232,000 for the three month period ended June 30, 1995. This is a result of the overall growth of deposits and the change in the deposit mix. On an average daily basis, total deposits (including demand deposits) increased 14.1 percent and 13.6 percent for the six and three month periods ended June 30, 1996, as compared to the similar periods ended June, 1995. When comparing these same periods, the average daily balances of the demand deposit accounts rose \$8,115,000 and \$9,419,000, respectively, while the average daily balances of savings and transaction accounts combined declined \$1,207,000 and \$976,000, respectively. The average daily balance of time deposits, which pay a higher rate of interest as compared to demand deposit and transaction accounts, increased \$53,451,000 and \$49,580,000 for the six and three months ended June 30, 1996, compared to the six and three months ended June 30, 1995. On an average daily basis, total deposits (including demand deposits) and purchased funds increased 14.0 percent and 14.5 for the six and three month periods ended June 30, 1996, as compared to the six and three month periods ended June 30, 1995. The Corporation's daily cost of funds during the six month period ended June 30, 1996, remained unchanged as compared to the same period of 1995, but decreased 17 basis points when comparing the three month periods ended June 30, 1996, and June 30, 1995.

The net effect of all factors affecting total interest and dividend income and total interest expense was to increase net interest income. For the six month period ended June 30, 1996, net interest income totaled \$10,752,000, an increase of 8.9 percent or \$879,000 over the first six months of 1995. For the three month period ended June 30, 1996, net interest income totaled \$5,513,000, an increase of \$489,000 or 9.7 percent over the three months ended June 30, 1995.

The variation in net interest income reflects both local and national market conditions as well as the ALCO's efforts to manage the margin and asset

growth.

#### Provision for Loan Losses

It is the policy of the Bank to maintain the allowance for loan losses at a level that is deemed appropriate based upon loan loss experience, the nature of the portfolio, the growth expected for the portfolio and the evaluation of the economic outlook for the current year and subsequent years. Special consideration is given to nonperforming and nonaccrual loans as well as factors that management feels deserve recognition during the entire life of the portfolio. For several years, the Bank has maintained 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 process of identifying credit losses that may occur based upon current circumstances is subjective. Therefore, management maintains a general allowance to cover all credit losses within the entire portfolio. The methodology management uses to determine the adequacy of the loan loss reserve is as follows:

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

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

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

Given this methodology for determining the adequacy of the loan loss

reserve, the provision for loan losses was the same in 1996, as compared to 1995. The provision amounted to \$60,000 for each of the six month periods ended June 30, 1996 and 1995. These provisions reflect the levels of past due accruing loans (90 days or more). They also reflect the immaterial levels of nonaccrual loans over the same periods. These levels of non-performing loans reflect both the general economic conditions that have promoted growth and expansion in the Bank's trade area during the last several years, and a credit risk management strategy that promotes diversification.

At June 30, 1996, 73.3 percent of the Bank's allowance for loan losses was classified as unallocated as compared to 74.2 percent classified as unallocated at December 31, 1995. To a large extent, this reflects the growth in total loans with the concentration of growth in the commercial loan portfolio. With the commercial loan growth and the expansion into new markets, management believes that it is prudent to continue to provide for loan losses, due to the inherent credit risk involved with the commercial loan portfolio.

As of June 30, 1996, loans delinquent 30 days or more that were included in the accompanying financial statements as accrual loans totaled approximately \$2,245,000. At June 30, 1996, there were loans totaling \$160,000 on nonaccrual. At December 31, 1995, there was \$1,435,000 in loans delinquent 30 days or more included as accruing loans in the financial statements and \$532,000 in nonaccrual loans. During the second quarter of 1996, loans totaling \$272,000 and included in nonaccrual loans at December 31, 1995, were transferred into other real estate owned.

Following is a summary of the loan loss experience for the six months ending June 30, 1996, and the year ending December 31, 1995.

	June 30, 1996	December 31, 1995
	-----	-----
	(in thousands)	
Amount of loans outstanding	\$ 349,516	\$ 327,617
	-----	-----
Average daily loans outstanding for the period	\$ 339,254	\$ 309,241
	-----	-----

Allowance for loan losses at the beginning of the period	\$	5,472	\$	4,866
Charge-offs				
Commercial		123		137
Real estate		0		48
Installment		56		112
Credit card and personal lines of credit		19		58
		-----		-----
Total charge-offs		198		355
Recoveries				
Commercial		3		26
Real estate		0		0
Installment		26		63
Credit card and personal lines of credit		2		6
		-----		-----
Total recoveries		31		95
		-----		-----
Net charge-offs (recoveries)		167		260
Purchase loan adjustment		0		746
Provision charged to expense		60		120
		-----		-----
Allowance for loan losses at the end of the period	\$	5,365	\$	5,472
		=====		=====
Ratio of net charge-offs during the period to average daily loans during the period				
Commercial		0.04%		0.03%
Real estate		0.00%		0.01%
Installment		0.01%		0.02%
Credit card and personal credit lines		0.00%		0.02%
		-----		-----
Total		0.05%		0.08%
		=====		=====

The purchase loan adjustment was the result of the acquisition of Gateway Bank in July, 1995.

Net interest income after provision for loan losses totaled \$10,692,000 and \$5,483,000 for the six and three month periods ended June 30, 1996. This represents increases of 9.0 percent and 9.8 percent over the same respective

periods ended June 30, 1995.

#### Noninterest Income

Total noninterest income increased \$693,000 or 32.4 percent to \$2,831,000 for the six month period ended June 30, 1996, from \$2,138,000 recorded for the six month period ended June 30, 1995. Total noninterest income for the three month period ended June 30, 1996, was \$1,477,000 which was \$389,000 or 35.8 percent higher than the noninterest income for the three months ended June 30, 1995.

Trust fees, which represent basic recurring service fee income, increased \$107,000 or 27.3 percent to \$499,000 for the six month period ended June 30, 1996, as compared to \$392,000 for the first six months of 1995. For the three month period ended June 30, 1996, trust fees were \$213,000, an increase of \$46,000 over the fees for the same period in 1995. The major fee increases were in testamentary trust fees, employee benefit plan fees and stock transfer service fees.

Service charges on deposit accounts increased 15.6 percent or \$171,000 during the six month period ended June 30, 1996, totaling \$1,270,000, as compared to the same period in 1995. These service charges increased \$115,000 for the three month period ended June 30, 1996, over the amount recorded for the three month period ended June 30, 1995. Fees on the LCB Club account (the Bank's low cost checking account service) and overdraft fees were the primary sources for the increase. Adjustments to the schedule of deposit account fees also contributed to this increase.

Other income (net) consists of normal recurring fee income, as well as other income that management classifies as nonrecurring. Other income (net) increased 37.1 percent or \$229,000 to \$847,000 for the six month period ended June 30, 1996, as compared to the same period in 1995. It increased \$139,000 or 44.0 percent for the three months ended June 30, 1996, as compared to the same months in 1995. Recurring components of other income increased 31.6 percent during the first six months of 1996, as compared to the first six months of 1995, and increased 53.7 percent for the three months of the second quarter of 1996, as compared to the three months of the second quarter of 1995. The major increase for the first six months was in mortgage service fees. The nonrecurring components of other income increased \$68,000 or 66.0 percent for the first six months of 1996, as compared to the same period in 1995. The majority of this increase was from other real estate owned income.

The profits from the sale of mortgages during the six month period ended June 30, 1996, totaled \$221,000, as compared to \$52,000 during the same period

in 1995. For the second quarter of 1996 only, these profits were \$121,000 as compared to \$35,000 for the same period in 1995. These increases from the prior periods are a reflection of a lower rate environment which has increased the volume of mortgages originated and the adoption of SFAS No. 122. The impact of adopting SFAS No. 122 was to increase the profits on the sale of mortgage loans during the first six months of 1996 by approximately \$126,000.

Net investment security gains (losses) amounted to \$(6,000) and \$(4,000) for the six and three month periods ended June 30, 1996, as compared to \$(23,000) and \$(7,000) for the six and three month periods ended June 30, 1995. In the first six months of 1996 and 1995, special calls of zero coupon bonds were responsible for these small losses. Additional calls are expected in future periods.

#### Noninterest Expense

Noninterest expense increased \$584,000 or 7.4 percent to \$8,497,000 for the six month period ended June 30, 1996, as compared to the first six months of 1995. Noninterest expense increased \$186,000 or 4.6 percent when comparing the three months ended June 30, 1996, to the three months ended June 30, 1995.

For the six months ended June 30, 1996, salaries and employee benefits increased to \$4,618,000, a \$593,000 increase or 14.7 percent as compared to the first six months of 1995. When comparing the three months ended June 30, 1996, to the same period in 1995, the increase was \$321,000 or 15.6 percent. These increases reflect the staffing of the Middlebury, LaGrange, Elkhart Concord, Rochester and Kendallville locations, as well as normal salary increases. Full-time equivalent employees increased to 310 at June 30, 1996, from 284 at June 30, 1995.

For the six and three month periods ended June 30, 1996, occupancy and equipment expenses were \$1,413,000 and \$690,000 respectively, a \$161,000 increase or 12.9 percent and \$58,000 or 9.2 percent from the same periods one year ago. This performance reflects the ordinary timing differences incurred with these types of expenses, as well as additional occupancy expense related to the new locations added in 1996 and 1995. These expenses are expected to continue to increase in 1996 with the Bank's continued growth and expansion.

For the six month period ended June 30, 1996, other expenses totaled \$2,466,000 as compared to \$2,636,000 during the same period in 1995. This is a decrease of 6.5 percent or \$170,000. For the second quarter of 1996 as compared to the second quarter of 1995 the decrease was \$193,000 or 13.8

percent. Increases in business development, data processing, supplies, telephone, postage and other miscellaneous expenses were offset by a decline in professional and regulatory fees. When comparing the six months ended June 30, 1996, to the six months ended June 30, 1995, other expenses, excluding professional and regulatory fees, increased \$286,000. This was offset by a \$456,000 decrease in professional and regulatory fees resulting from the reduction in FDIC insurance fees. When comparing the three months ended June 30, 1996, to the three months ended June 30, 1995, other expense, excluding professional and regulatory fees, increased \$44,000. This was offset by a \$237,000 decrease in professional and regulatory fees resulting from the reduction in FDIC insurance fees.

#### Income Before Income Tax Expense

As a result of the above factors, income before income tax expense increased to \$5,026,000 for the first six months of 1996, as compared to \$4,038,000 for the same period in 1995. This is an increase of \$988,000 or 24.5 percent. For the three months ended June 30, 1996, as compared to the three months ended June 30, 1995, the increase in income before income tax expense was \$692,000 or 34.7 percent.

#### Income Tax Expense

Income tax expense increased to \$1,808,000 for the first six months of 1996, as compared to \$1,385,000 for the same period in 1995. This is a \$423,000 or 30.5 percent increase. Income tax expense for the second quarter of 1996 increased \$325,000 or 50.2 percent as compared to the second quarter of 1995.

The combined State franchise tax expense and the Federal income tax expense as a percent of income before income tax expense increased to 36.0 percent during the first six months of 1996, as compared to 34.3 percent during the same period in 1995. It increased to 36.2 percent for the three months ended June 30, 1996, as compared to 32.5 percent for the same three months in 1995. Currently the State franchise tax rate is 8.5 percent and is a deductible expense for computing Federal income tax.

#### Net Income

As a result of all factors indicated above, net income increased to \$3,218,000 for the first six months of 1996, an increase of \$565,000 or 21.3 percent from the \$2,653,000 recorded over the same period in 1995. Earnings per share for the first six months of 1996 were \$1.11 per share as compared to \$.92 per share for the first six months of 1995. The 1996 and 1995 earnings per share have been restated to reflect a two-for-one stock split on April 30,

1996. For the three months ended June 30, 1996, net income was \$1,714,000 as compared to \$1,347,000 for the three months ended June 30, 1995, an increase of \$367,000 or 27.2 percent.



LAKELAND FINANCIAL CORPORATION

FORM 10-Q

June 30, 1996

Part II - Other Information

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

At the annual meeting of shareholders held on April 9, 1996, the shareholders voted on a proposal to increase the capital stock of the Corporation from 2,750,000 shares to 10,000,000 shares. The Articles of Incorporation of Lakeland Financial Corporation require an affirmative vote of two-thirds of the issued and outstanding shares of the Corporation in order to increase the capital stock. At the annual meeting there were 1,138,676 votes for the increase and 56,411 against. All abstentions and non-votes were treated as no vote. In order for the proposal to pass there needed to be 965,664 shares voted for the proposal. There being more than the required two-thirds vote for the proposal to increase the capital stock, the proposal passed.

There were no other submissions of matters to a vote by security holders during the quarter ended June 30, 1996.

LAKELAND FINANCIAL CORPORATION

FORM 10-Q

June 30, 1996

Part II - Other Information

Item 5 - Other Information

Subsequent to the shareholder approval to increase the common stock of the Corporation, the Board of Directors of the Corporation declared a two-for-one stock split at their regularly scheduled meeting. The record date for the split was April 30, 1996, with new certificates issued on May 15, 1996.

At their regularly scheduled meeting on May 14, 1996, the Board of Directors of Lakeland Financial Corporation approved the restated Articles of Incorporation and the restated By-Laws of Lakeland Financial Corporation.

At their regularly scheduled meeting on June 11, 1996, the Board of Directors of Lake City Bank approved the restated Articles of Incorporation and the restated By-Laws of Lake City Bank.

LAKELAND FINANCIAL CORPORATION

FORM 10-Q

June 30, 1996

Part II - Other Information

Item 6 - Exhibits and Reports on Form 8-K

(a) The following exhibits are filed as part of this report:

Exhibit 3(i) Restated Articles of Incorporation of Lakeland  
Financial Corporation

Exhibit 3(i) Restated Articles of Incorporation of Lake City Bank

Exhibit 3(ii) Restated By-Laws of Lakeland Financial Corporation

Exhibit 3(ii) Restated By-Laws of Lake City Bank

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed by the Registrant during the last  
32 weeks ending August 9, 1996.

LAKELAND FINANCIAL CORPORATION

FORM 10-Q

June 30, 1996

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: August 9, 1996

R. Douglas Grant  
R. Douglas Grant - President

Date: August 9, 1996

Terry M. White  
Terry M. White - Secretary/Treasurer

EXHIBIT INDEX

Exhibit No.	Description	Page
3(i)	Restated Articles of Incorporation of Lakeland Financial Corporation	
3(i)	Restated Articles of Incorporation of Lake City Bank	
3(ii)	Restated By-Laws of Lakeland Financial Corporation	
3(ii)	Restated By-Laws of Lake City Bank	
27	Financial Data Schedule (EDGAR filing only)	



RESTATED  
ARTICLES OF INCORPORATION  
OF  
LAKELAND FINANCIAL CORPORATION

ARTICLE I  
-----

NAME

The name of the Corporation is Lakeland Financial Corporation.

ARTICLE II  
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PURPOSES

The purposes for which the Corporation is formed are:

SECTION 1. To acquire control of the Lake City Bank, of Warsaw, Indiana and to operate as a bank holding company.

SECTION 2. GENERAL POWERS. To possess, exercise, and enjoy all rights, powers and privileges conferred upon bank holding companies by the Bank Holding Company Act of 1956 as amended and as hereafter amended or supplemented, and all other rights and powers authorized by the laws of the State of Indiana, and the laws of the United States of America applicable to bank holding companies and the regulations of the Board of Governors of the Federal Reserve System.

SECTION 3. TO DEAL IN REAL PROPERTY. Subject to the limitations of Section 2 above, to acquire by purchase, exchange, lease or otherwise, and to hold, own, use, construct, improve, equip, manage, occupy, mortgage, sell, lease, convey, exchange or otherwise dispose of, alone or in conjunction with others, real estate and leaseholds of every kind, character and description whatsoever and wheresoever situated, and any other interests therein, including, but without limiting the generality thereof, buildings, factories, warehouses, offices and structures of all kinds.

SECTION 4. CAPACITY TO ACT. Subject to the limitations of Section 2 above, to have the capacity to act possessed by natural persons and to perform such acts as are necessary and advisable to accomplish the purposes, activities and business of the Corporation.

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SECTION 5. TO ACT AS AGENT. Subject to the limitations of Section 2 above, to act as agent or representative for any firm, association, corporation, partnership, government or person, public or private, with respect to any activity or business of the Corporation.

SECTION 6. TO MAKE CONTRACTS AND GUARANTEES. Subject to the limitations of Section 2 above, to make, execute and perform, or cancel and rescind, contracts of every kind and description, including guarantees and contracts of suretyship, with any firm, association, corporation, partnership, government or person, public or private.

SECTION 7. TO BORROW FUNDS. Subject to the limitations of Section 2 above, to borrow moneys for any activity or business of the Corporation and, from time to time, without limit as to amount, to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures, notes, trust receipts, and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment thereof, and the interest thereon, by mortgage, pledge, conveyance, or assignment in trust of all or any part of the assets of the Corporation, real, personal or mixed, including contract rights, whether at the time owned or thereafter acquired, and to sell, exchange, or otherwise dispose of such securities or other obligations of the Corporation.

SECTION 8. TO DEAL IN ITS OWN SECURITIES. Subject to the limitations of Section 2 above, to purchase, take, receive or otherwise acquire, and to hold, own, pledge, transfer or otherwise dispose of shares of its own capital stock and other securities. Purchases of the Corporation's own shares, whether direct or indirect, may be made without shareholder approval only to the extent of unreserved and unrestricted earned surplus available therefor.

ARTICLE III  
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PERIOD OF EXISTENCE

The period during which the Corporation shall continue is perpetual.

ARTICLE IV  
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RESIDENT AGENT AND PRINCIPAL OFFICE

SECTION 1. RESIDENT AGENT. The name and address of the Corporation's Resident Agent for service of process is R. Douglas Grant, 202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46580.





SECTION 2. PRINCIPAL OFFICE. The post office address of the principal office of the Corporation is 202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46580.

ARTICLE V  
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AUTHORIZED SHARES

SECTION 1. NUMBER OF SHARES. The total number of shares which the Corporation is to have authority to issue is 10,000,000, all of which are without par value.

SECTION 2. GENERAL TERMS. All of the authorized shares shall be designated as "Common Stock", and each share of Common Stock shall be equal to every other share of Common Stock and shall participate equally in all earnings and profits of the Corporation and on distribution of assets, either on dissolution, liquidation or otherwise.

SECTION 3. VOTING RIGHTS. Each holder of the Common Stock shall have the right to vote on all matters presented to shareholders and shall be entitled on all matters including elections of directors to one vote for each share of Common Stock registered in his name on the books of the Corporation.

ARTICLE VI  
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REQUIREMENTS PRIOR TO DOING BUSINESS

The stated capital of the Corporation as of the date of filing of these Restated Articles of Incorporation is at least One Thousand Dollars (\$1,000.00).

ARTICLE VII  
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DIRECTOR(S)

SECTION 1. NUMBER OF DIRECTORS. The Board of Directors shall be composed of such number of directors ranging from nine (9) to eighteen (18), inclusive, as shall be established from time to time by the By-laws of the Corporation. In the absence of the establishment of such a number, the number of directors shall be ten (10).

SECTION 2. NAMES AND POST OFFICE ADDRESSES OF THE DIRECTORS. The names and post office addresses of the Board of Directors of the Corporation at the date of adoption of these Restated Articles of Incorporation are:

NAME	NUMBER AND STREET OR BUILDING	CITY	STATE	ZIP
Eddie Creighton	P.O. Box 1058	Warsaw	IN	46580
Anna K. Duffin	2300 S. Main	Goshen	IN	46526
L. Craig Fulmer	120 W. Lexington, Ste. 310	Elkhart	IN	46516
R. Douglas Grant	P.O. Box 1387	Warsaw	IN	46580
Jerry L. Helvey	2808 E. Turnberry Rd.	Warsaw	IN	46580
Homer A. Kent	305 Sixth Street	Winona Lake	IN	46590
J. Alan Morgan	114 EMS T36 Lane	Leesburg	IN	46538
Richard L. Pletcher	1600 W. Market St.	Nappanee	IN	46550
Joseph P. Prout	P.O. Box 877	Warsaw	IN	46580
Philip G. Spear	111 S. High St.	Warsaw	IN	46580
Terry L. Tucker	P.O. Box 308	Milford	IN	46542
George L. White	1727 Betsy Ct.	Warsaw	IN	46580

SECTION 3. QUALIFICATIONS OF DIRECTORS.

(a) Directors need not be shareholders of the Corporation.

(b) For the period of at least six (6) months prior to his election to the Board of Directors of the Corporation and during his tenure thereon, each director shall be a resident of the market area of the Corporation as determined annually by the Board of Directors as required by the Community Reinvestment Act of 1977, as now in effect or as hereafter amended.

(c) No director shall be a director, officer, employee, or the holder of 5% or more of the outstanding shares of any class of voting securities or securities convertible into voting securities of any financial institution, including but not limited to banks, trust companies, savings and loan associations, whether stock or mutual, credit unions, bank holding companies, savings and loan holding companies, or any other entity controlling, controlled by or in common control with a financial institution, other than (a) the Corporation, (b) any subsidiary of or other entity controlled by the Corporation, or (c) serving in any capacity at the request of the Corporation.

(d) Those directors holding office as of the date of these amended Articles, who would otherwise be precluded from serving as directors of this

Corporation because of the restrictions imposed by this Section 3 of the Article VII, shall be permitted to continue to serve as directors of the Corporation for such continuous period of time as they are elected or reelected by the shareholders.

#### SECTION 4. TERMS OF DIRECTORS.

(a) The terms of the Directors shall be staggered as set forth herein. For purposes of this section, the Board of Directors shall be divided into three classes consisting, to the extent possible, of equal numbers. The classes shall be designated Class A, Class B and Class C, respectively. To the extent that the number of directors is not divisible by three (3), the first additional director shall be placed in Class A and the second additional director, if there is one, shall be placed in Class B.

(b) At the annual meeting of shareholders to be held in 1984, the shareholders shall vote for the total number of directors as shall be set by the Board of Directors pursuant to Section 1 of this Article VII. Class A shall be elected for a term of three (3) years. Class B shall be elected for an initial term of two (2) years and for terms thereafter of three (3) years. Class C shall be elected for an initial term of one (1) year and for terms thereafter of three (3) years. Each person elected shall serve for the term of the class to which he has been designated and until his successor is duly elected and qualified or until his earlier death, resignation, disqualification, or removal from office.

(c) At the annual meeting of shareholders to be held in 1985, the shareholders shall vote for the number of directors comprising Class B to hold office for a term of three (3) years. At the annual meeting of shareholders to be held in 1986, the shareholders shall vote for the number of directors comprising Class C to hold office for a term of three years. At subsequent annual meetings, the shareholders shall vote for the number of directors comprising the class whose term is expiring, which class shall be elected for a term of three (3) years.

SECTION 5. REMOVAL OF DIRECTORS. Except as provided below, a director may not be removed or suspended from the Board of Directors except with cause as determined by procedures established from time to time by the By-laws of the Corporation. Any or all members of the Board of Directors may be removed, with or without cause, at a meeting of the shareholders called expressly for that purpose, by a vote of the holders of not less than two-thirds of the outstanding shares of common stock of the Corporation entitled to vote at that meeting. Any director shall immediately cease being a director when he no longer satisfies the standards for qualification established by Section 3 of this Article VII.

ARTICLE VIII

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OFFICERS

The name and post office address of the President and Secretary of the Corporation at the date of adoption of these Restated Articles of Incorporation are, respectively:

NAME	NUMBER AND STREET OR BUILDING	CITY	STATE	ZIP
R. Douglas Grant, President	P.O. Box 1387	Warsaw	IN	46580
Terry M. White, Secretary	P.O. Box 1387	Warsaw	IN	46580

ARTICLE IX

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PROVISIONS FOR REGULATION OF BUSINESS  
AND CONDUCT OF AFFAIRS OF CORPORATION

SECTION 1. MEETINGS OF SHAREHOLDERS. Meetings of shareholders of the Corporation shall be held at such place, within or without the State of Indiana, as may be specified in the notices or waivers of notice of such meetings.

SECTION 2. MEETINGS OF DIRECTORS. Meetings of Directors of the Corporation shall be held at such place, within or without the State of Indiana, as may be specified in the notices or waivers of notice of such meetings.

SECTION 3. CONSIDERATION FOR SHARES. Shares of stock of the Corporation shall be issued or sold in such manner and for such amount of consideration as may be fixed from time to time by the Board of Directors.

SECTION 4. BY-LAWS OF THE CORPORATION. The Board of Directors by a majority vote of the actual number of directors elected and qualified from time to time shall have the power, without the assent or vote of the shareholders, to make, alter, amend or repeal the By-Laws of the Corporation.

SECTION 5. COMMITTEES. If the By-Laws so provide, the Board of Directors may, by resolution adopted by a majority of the actual number of directors elected and qualified from time to time, designate from among its members an executive committee and one or more other committees, each of which to the extent provided in such resolution, the Articles of Incorporation or the

By-Laws, may exercise all of the authority and powers of the Board of Directors of the Corporation, and shall have the power to authorize the execution of all documents and the affixing of the Seal of the Corporation to all papers which may require it; but no such committee shall have the authority of the Board of Directors in reference to amending the Articles of Incorporation, adopting an agreement or plan of merger or consolidation, proposing a special corporate transaction, recommending to the shareholders a voluntary dissolution of the Corporation or a revocation thereof, electing or removing officers, or amending the By-Laws of the Corporation. The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law. No member of any such committee shall continue to be a member thereof after he ceases to be a Director of the Corporation.

SECTION 6. CONSENT ACTION BY SHAREHOLDERS. Any action required by statute to be taken at a meeting of the shareholders, or any action which may be taken at a meeting of the shareholders, may be taken without a meeting if, prior to such action, a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof, and such written consent is filed with the minutes of the proceedings of the shareholders.

SECTION 7. CONSENT ACTION BY DIRECTORS. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting, if prior to such action a written consent to such action is signed by all members of the Board of Directors or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or committee.

SECTION 8. INTEREST OF DIRECTORS IN CONTRACTS. Any contract or other transaction between the Corporation and any corporation in which this Corporation owns a majority of the capital stock shall be valid and binding, notwithstanding that the directors or officers of this Corporation are identical or that some or all of the directors or officers, or both, are also directors or officers of such other corporation.

Any contract or other transaction between the Corporation and one or more of its directors or members or employees, or between the Corporation and any firm of which one or more of its directors are members or employees or in which they are interested, or between the Corporation and any corporation or association of which one or more of its directors are stockholders, members, directors, officers, or employees or in which they are interested, shall be valid for all purposes notwithstanding the presence of such director or directors at the meeting of the Board of Directors of the Corporation which acts upon, or in reference to, such contract or transaction and notwithstanding his or their participation in such action, if the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall authorize, approve and ratify such contract or transaction by a vote of a majority of the directors present, such interested director or

directors to be counted in determining whether a quorum is present, but not to be counted in calculating the majority of such quorum necessary to carry such vote. This Section shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common statutory law applicable thereto.

SECTION 9. INDEMNIFICATION OF DIRECTORS, OFFICERS AND EMPLOYEES. Every person who is or was a director, officer or employee of this Corporation or of any other corporation for which he is or was serving in any capacity at the request of this Corporation shall be indemnified by this Corporation against any and all liability and expense that may be incurred by him in connection with or resulting from or arising out of any claim, action, suit or proceeding, provided that such person is wholly successful with respect thereto or acted in good faith in what he reasonably believed to be in or not opposed to the best interests of this Corporation or such other corporation, as the case may be, and, in addition, in any criminal action or proceeding in which he had no reasonable cause to believe that his conduct was unlawful. As used herein, "claim, action, suit or proceeding" shall include any claim, action, suit or proceeding (whether brought by or in the right of this Corporation or such other corporation or otherwise), civil, criminal, administrative or investigative, whether actual or threatened or in connection with an appeal relating thereto, in which a director, officer or employee of this Corporation may become involved, as a party or otherwise,

(i) by reason of his being or having been a director, officer or employee of this Corporation or such other corporation or arising out of his status as such or

(ii) by reason of any past or future action taken or not taken by him in any such capacity, whether or not he continues to be such at the time such liability or expense is incurred.

The terms "liability" and "expense" shall include, but shall not be limited to, attorneys' fees and disbursements, amounts of judgments, fines or penalties, and amounts paid in settlement by or on behalf of a director, officer or employee, but shall not in any event include any liability or expenses on account of profits realized by him in the purchase or sale of securities of the Corporation in violation of the law. The termination of any claim, action, suit or proceeding, by judgment, settlement (whether with or without court approval) or conviction or upon a plea of guilty or of nolo contendere, or its equivalent, shall not create a presumption that a director, officer or employee did not meet the standards of conduct as forth in this paragraph.

Any such director, officer or employee who has been wholly successful with respect to any such claim, action, suit or proceeding shall be entitled to indemnification as a matter of right. Except as provided in the preceding sentence, any indemnification hereunder shall be made only if (i) the Board of Directors acting by a quorum consisting of Directors who are not parties to or

who have been wholly successful with respect to such claim, action, suit or proceeding shall find that the director, officer or employee has met the standards of conduct set forth in the preceding paragraph; or (ii) independent legal counsel shall deliver to the Corporation their written opinion that such director, officer or employee has met such standards of conduct.

If several claims, issues or matters of action are involved, any such person may be entitled to indemnification as to some matters even though he is not entitled as to other matters.

The Corporation may advance expenses to or, where appropriate, may at its expense undertake the defense of any such director, officer or employee upon receipt of an undertaking, in form and substance satisfactory to the Board of Directors, by or on behalf of such person to repay such expenses if it should ultimately be determined that he is not entitled to indemnification hereunder.

The provisions of this Section shall be applicable to claims, actions, suits or proceedings made or commenced after the adoption hereof, whether arising from acts or omissions to act during, before or after the adoption hereof.

The rights of indemnification provided hereunder shall be in addition to any rights to which any person concerned may otherwise be entitled by contract or as a matter of law and shall inure to the benefit of the heirs, executors and administrators of any such person.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation against any liability asserted against him and incurred by him in any capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Section or otherwise.

SECTION 10. DISTRIBUTIONS OUT OF CAPITAL SURPLUS. The Board of Directors of the Corporation may from time to time distribute to its shareholders out of the capital surplus of the Corporation a portion of its assets, in cash or property, without the assets or vote of the shareholders, provided that with respect to such a distribution the requirements of The Indiana General Corporation Act other than shareholder approval are satisfied.

SECTION 11. POWERS OF DIRECTORS. In addition to the powers and the authority granted by these Articles or by statute expressly conferred, the Board of Directors of the Corporation is hereby authorized to exercise all powers and to do all acts and things as may be exercised or done under the laws of the State of Indiana by a corporation organized and existing under the

provisions of The Indiana General Corporation Act and not specifically prohibited or limited by these Articles.

SECTION 12. VOTE REQUIRED ON CERTAIN MATTERS.

(a) The affirmative vote of the holders of not less than two-thirds of the outstanding shares of common stock of the Corporation shall be required for the authorization or adoption of the following transactions:

- (1) any merger or consolidation of the Corporation or any subsidiary thereof with or into any control person, whether or not the Corporation or any such subsidiary is the surviving corporation of any such merger or consolidation;
- (2) any sale, lease, exchange, transfer or other disposition (including, without limitation, the granting of a mortgage or other security interest), to a control person by the Corporation or any subsidiary thereof, of any material part of the assets of the Corporation or of any subsidiary thereof;
- (3) a liquidation or dissolution of the Corporation or any material subsidiary thereof or adoption of any plan with respect thereto; or
- (4) any amendment of the Articles of Incorporation of the Corporation.

(b) Prior to the approval of any of the transactions referred to in subsection (a) of this Section, the Board of Directors shall make an evaluation of all relevant factors and issues arising out of or in connection with any such transaction and shall report to the shareholders the conclusions which the Board of Directors reaches from such evaluation. Relevant factors and issues shall include consideration of the impact which any such transaction would have on the community in which the Corporation or its subsidiaries conduct business, the employees of the Corporation or any of its subsidiaries, and the suppliers and customers of the Corporation and its subsidiaries, and shall also include any and all other factors which the Board of Directors in its discretion deems relevant.

(c) The following definitions shall apply when used in this Section:

- (1) "Control person" shall include any person, whether an individual, a corporation, a partnership, a group, or otherwise, who separately or in association with one or more other persons (i) owns, or controls the vote of, in the aggregate, directly or indirectly, ten percent (10%) or more of the outstanding voting securities of the Corporation, or (ii) during the twelve month period preceding any such vote, has acquired or obtained control of



the vote of five percent (5%) or more of the voting securities of the Corporation.

(2) "Controls the vote" and "control of the vote" shall mean the ability, directly or indirectly, to direct or cause the direction of the vote, whether by reason of agreement, an exercisable option or otherwise.

(3) "Voting securities of the Corporation" includes (i) any securities of the Corporation which are entitled to vote on any matter referred to in this Section; (ii) any securities, including but not limited to, preferred stock, bonds, debentures, or options, which can be converted into voting securities at the time of the vote referred to in this Section; and (iii) security agreements of any nature for which voting securities are pledged as collateral.



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ARTICLE I  
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SECTION 1. NAME. The name of the corporation is Lakeland Financial Corporation ("Corporation").

SECTION 2. PRINCIPAL OFFICE OF THE RESIDENT AGENT. The post-office address of the principal office of the Corporation is 202 East Center Street, Warsaw, Indiana 46580, and the name and post-office address of its Resident Agent in charge of such office is R. Douglas Grant, 202 East Center Street, Warsaw, Indiana 46580.

SECTION 3. SEAL. The seal of the Corporation shall be circular in form and mounted upon a metal die, suitable for impressing the same upon paper. About the upper periphery of the seal shall appear the words "Lakeland Financial Corporation" and about the lower periphery thereof the word "Indiana". In the center of the seal shall appear the word "Seal".

ARTICLE II  
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The fiscal year of the Corporation shall begin each year on the first day of January and end on the last day of December of the same year.

ARTICLE III  
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CAPITAL STOCK

SECTION 1. NUMBER OF SHARES AND CLASSES OF CAPITAL STOCK. The total number of shares of capital stock which the Corporation shall have authority to issue shall be as stated in the Articles of Incorporation.

SECTION 2. CONSIDERATION FOR NO PAR VALUE SHARES. The shares of stock of the Corporation without par value shall be issued or sold in such manner and

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for such amount of consideration as may be fixed from time to time by the Board of Directors. Upon payment of the consideration fixed by the Board of Directors, such shares of stock shall be fully paid and nonassessable.

SECTION 3. CONSIDERATION FOR TREASURY SHARES. Treasury shares may be disposed of by the Corporation for such consideration as may be determined from time to time by the Board of Directors.

SECTION 4. PAYMENT FOR SHARES. The consideration for the issuance of shares of capital stock of the Corporation may be paid, in whole or in part, in money, in other property, tangible or intangible, or in labor actually performed for, or services actually rendered to the Corporation; provided, however, that the part of the surplus of the Corporation which is transferred to stated capital upon the issuance of share as a share dividend shall be deemed to be the consideration for the issuance of such shares. When payment of the consideration for which a share was authorized to be issued shall have been received by the Corporation, or when surplus shall have been transferred to stated capital upon the issuance of a share dividend, such share shall be declared and taken to be fully paid and not liable to any further call or assessment, and the holder thereof shall not be liable for any further payments thereon. In the absence of actual fraud in the transaction, the judgment of the Board of Directors as to the value of such property, labor or services received as consideration, or the value placed by the Board of Directors upon the corporate assets in the event of a share dividend, shall be conclusive. Promissory notes, uncertified checks, or future services shall not be accepted in payment or part payment of the capital stock of the Corporation, except as permitted by The Indiana Business Corporation Law.

SECTION 5. CERTIFICATE FOR SHARES. Each holder of capital stock of the Corporation shall be entitled to a stock certificate, signed by the President or a Vice President and the Secretary or any Assistant Secretary of the Corporation, stating the name of the registered holder, the number of shares represented by such certificate, the par value of each share of stock or that such shares of stock are without par value, and that such shares are fully paid and nonassessable. If such shares are not fully paid, the certificates shall be legibly stamped to indicate the percent which has been paid, and as further payments are made, the certificate shall be stamped accordingly.

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If the Corporation is authorized to issue shares of more than one class, every certificate shall state the kind and class of shares represented thereby, and the relative rights, interests, preferences and restrictions of such class, or a summary thereof; provided, that such statement may be omitted from the certificate if it shall be set forth upon the face or back of the certificate that such statement, in full, will be furnished by the Corporation to any shareholder upon written request and without charge.

SECTION 6. FACSIMILE SIGNATURES. If a certificate is countersigned by the written signature of a transfer agent other than the Corporation or its employee, the signatures of the officers of the Corporation may be facsimiles. If a certificate is countersigned by the written signature of a registrar other than the Corporation or its employee, the signatures of the transfer agent and the officers of the Corporation may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of its issue.

SECTION 7. TRANSFER OF SHARES. The shares of capital stock of the Corporation shall be transferable only on the books of the Corporation upon surrender of the certificate or certificates representing the same, properly endorsed by the registered holder or by his duly authorized attorney or accompanied by proper evidence of succession, assignment or authority to transfer.

SECTION 8. CANCELLATION. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 10 of this Article III.

SECTION 9. TRANSFER AGENT AND REGISTRAR. The Board of Directors may appoint a transfer agent and a registrar for each class of capital stock of the Corporation and may require all certificates representing such shares to bear the signature of such transfer agent and registrar. Shareholders shall be responsible for notifying the transfer agent and registrar for the class of stock held by such shareholder in writing of any changes in their addresses from time to time, and failure so to do shall relieve the Corporation, its shareholders, directors, officers, transfer agent and registrar of liability

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for failure to direct notices, dividends, or other documents or property to an address other than the one appearing upon the records of the transfer agent and registrar of the Corporation.

SECTION 10. LOST, STOLEN OR DESTROYED CERTIFICATES. The Corporation may cause a new certificate or certificates to be issued in place of any certificate or certificates therefore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Corporation may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum and in such form as it may direct to indemnify against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificate. The Corporation, in its discretion, may authorize the issuance of such new certificates without any bond when in its judgment it is proper to do so.

SECTION 11. REGISTERED SHAREHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of such shares to receive dividends, to vote as such owner, to hold liable for calls and assessments, and to treat as owner in all other respects, and shall not be bound to recognize any equitable or other claims to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Indiana.

SECTION 12. OPTIONS TO OFFICERS AND EMPLOYEES. The issuance, including the consideration, of rights or options to directors, officers or employees of the Corporation, and not to the shareholders generally, to purchase from the Corporation shares of its capital stock shall be approved by the affirmative vote of the holders of a majority of the shares entitled to vote thereon or shall be authorized by and consistent with a plan approved by such a vote of the shareholders. The price to be received for any shares having a par value, other than treasury shares to be issued upon the exercise of such rights or options, shall not be less than the par value thereof.

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ARTICLE IV  
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MEETINGS OF SHAREHOLDERS

SECTION 1. PLACE OF MEETING. Meetings of shareholders of the Corporation shall be held at such place, within or without the State of Indiana, as may from time to time be designated by the Board of Directors, or as may be specified in the notices or waivers of notice of such meetings.

SECTION 2. ANNUAL MEETING. The annual meeting of shareholders for the election of Directors, and for the transaction of such other business as may properly come before the meeting, shall be held on the second Tuesday of April of each year, if such day is not a holiday, and if a holiday, then on the first following day that is not a holiday, or in lieu of such day may be held on such other day as the Board of Directors may set by resolution, but not later than the end of the fifth month following the close of the fiscal year of the Corporation. Failure to hold the annual meeting at the designated time shall not work any forfeiture or a dissolution of the Corporation, and shall not affect otherwise valid corporate acts.

SECTION 3. SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Articles of Incorporation, may be called by the Board of Directors or the President and shall be called by the President or Secretary at the request in writing of a majority of the Board of Directors, or at the request in writing of shareholders holding of record not less than one-fourth of all the shares outstanding and entitled by the Articles of Incorporation to vote on the business for which the meeting is being called.

SECTION 4. NOTICE OF MEETINGS. A written or printed notice, stating the place, day and hour of the meeting, and in case of a special meeting, or when required by any other provision of The Indiana Business Corporation Law, or of the Articles of Incorporation, as now or hereafter amended, or these By-Laws, the purpose or purposes for which the meeting is called, shall be delivered or mailed by the Secretary, or by the officers or persons calling the meeting, to each shareholder of record entitled by the Articles of Incorporation, as now or hereafter amended, and by The Indiana Business Corporation Law to vote at such meeting, at such address as appears upon the records of the Corporation, at least ten (10) days before the date of the meeting. Notice of any such

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meeting may be waived in writing by any shareholder, if the waiver sets forth in reasonable detail the purpose or purposes for which the meeting is called, and the time and place thereof. Attendance at any meeting in person, or by proxy, shall constitute a waiver of notice of such meeting. Each shareholder, who has in the manner above provided waived notice of a shareholders' meeting, or who personally attends a shareholders' meeting, or is presented thereat by a proxy authorized to appear by an instrument of proxy, shall be conclusively presumed to have been given due notice of such meeting. Notice of any adjourned meeting of stockholders shall not be required to be given if the time and place thereof are announced at the meeting at which the adjournment is taken, except as may be expressly required by law.

SECTION 5. ADDRESSES OF SHAREHOLDERS. The address of any shareholder appearing upon the records of the Corporation shall be deemed to be the latest address of such shareholder appearing on the records maintained by the Transfer Agent for the class of stock held by such shareholder.

SECTION 6. VOTING AT MEETINGS.

(a) QUORUM. The holders of record of a majority of the issued and outstanding stock of the Corporation entitled to vote at such meeting, present in person or by proxy, shall constitute a quorum at all meetings of stockholders for the transaction of business, except where otherwise provided by law, the Articles of Incorporation or these By-Laws. In the absence of a quorum, any officer entitled to preside at, or act as secretary of, such meeting shall have the power to adjourn the meeting from time to time until a quorum shall be constituted. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting, but only those stockholders entitled to vote at the original meeting shall be entitled to vote at any adjournment or adjournments thereof unless a new record date is fixed by the Board of Directors for the adjourned meeting.

(b) VOTING RIGHTS. Except as otherwise provided by law or by the provisions of the Articles of Incorporation, every shareholder shall have the right at every shareholders' meeting to one vote for each share of stock having voting power, registered in his name on the books of the Corporation on

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the date for the determination of shareholders entitled to vote, on all matters coming before the meeting including the election of directors. At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person, or by proxy executed in writing by the shareholder or a duly authorized attorney in fact and bearing a date not more than eleven months prior to its execution, unless a longer time is expressly provided therein.

(c) REQUIRED VOTE. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of The Indiana Business Corporation Law or of the Articles of Incorporation or by these By-Laws, a greater vote is required, in which case such express provision shall govern and control the decision of such question.

SECTION 7. VOTING LIST. The Transfer Agent of the Corporation shall make, at least five days before each election of directors, a complete list of the shareholders entitled by the Articles of Incorporation, as now or hereafter amended, to vote at such election, arranged in alphabetical order, with the address and number of shares so entitled to vote held by each, which list shall be on file at the principal office of the Corporation and subject to inspection by any shareholder. Such list shall be produced and kept open at the time and place of election and subject to the inspection by any shareholder. The original stock register or transfer book, or a duplicate thereof kept in the State of Indiana, shall be the only evidence as to who are the shareholders entitled to examine such list or the stock ledger or transfer book or to vote at any meeting of the shareholders.

SECTION 8. FIXING OF RECORD DATE TO DETERMINE SHAREHOLDERS ENTITLED TO VOTE. The Board of Directors may prescribe a period not exceeding 50 days prior to meetings of the shareholders, during which no transfer of stock on the books of the Corporation may be made; or, in lieu of prohibiting the transfer for stock may fix a day and hour not more than 50 days prior to the holding of any meeting of shareholders as the time as of which shareholders entitled to notice of, and to vote at, such meeting shall be determined, and all persons who are holders of record of voting stock at such time, and no others, shall be entitled to notice of, and to vote at, such meeting. In the absence of such a determination, such date shall be 10 days prior to the date of such meeting.



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SECTION 9. NOMINATIONS FOR DIRECTOR. Nominations for election to the Board of Directors may be made by the Board of Directors or by any shareholder of any outstanding class of capital stock of the Corporation entitled to vote for the election of directors. Nominations, other than those made by or on behalf of the Corporation entitled to vote for the election of directors. Nominations, other than those made by or on behalf of the existing management of the Corporation, shall be made in writing and shall be delivered or mailed to the president of the Corporation not less than 10 days nor more than 50 days prior to any meeting of shareholders called for the election of directors. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the Corporation that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the Corporation owned by the notifying shareholder. Nominations not made in accordance herewith may, in his discretion, be disregarded by the chairman of the meeting, and upon his instructions, the vote tellers may disregard all votes cast for each such nominee.

SECTION 10. MEETINGS. The Chairman of the Board of Directors shall preside at each meeting of shareholders. In the absence of the Chairman, the meeting shall be chaired by an officer of the corporation in accordance with the following order: President, Executive Vice President, Senior Vice President and Vice President. In the absence of all such officers, the meeting shall be chaired by a person chosen by the vote of a majority in interest of the shareholders present in person or represented by proxy and entitled to vote thereat, shall act as chairman. The Secretary or in his or her absence an Assistant Secretary or in the absence of the Secretary and all Assistant Secretaries a person whom the chairman of the meeting shall appoint shall act as secretary of the meeting and keep a record of the proceedings thereof. The Board of Directors of the Company shall be entitled to make such rules or regulations for the conduct of meetings of shareholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations or participation in such meeting to

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shareholders of record of the Company and their duly authorized and constituted proxies, and such other persons as the Chairman shall permit restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comment by participants and regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. Unless determined otherwise by the Board of Directors or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE V  
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BOARD OF DIRECTORS

SECTION 1. ELECTION, NUMBER AND TERM OF OFFICE. Directors shall be elected at the annual meeting of shareholders, or, if not so elected, at a special meeting of shareholders called for that purpose, by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors.

The number of Directors of the Corporation to be elected by the holders of the shares of stock entitled by the Articles of Incorporation to elect directors, shall be established by the affirmative vote at least 75% in number of the directors holding office at the time of such determination. Absent such determination, the number of directors shall be ten (10).

SECTION 2. VACANCIES.

(a) Any vacancies occurring in the Board of Directors caused by death, resignation, disqualification, removal from office, or otherwise (other than as provided in subsection (b) of this Section 2), shall be filled by a majority vote of the remaining directors. Any director so appointed shall hold office for the unexpired term of the director who is being replaced and until his successor is elected and has qualified, or until his earlier death, resignation, disqualification or removal from office.

(b) In the event of an increase in the number of directors pursuant to the provisions in Section 1 of this Article V, a new directorship shall be

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assigned to the classes in such a manner as to maintain, to the extent possible, in equal number in each of the classes. These directorships shall then be filled by a majority vote of the members of the Board of Directors prior to the filling of any such vacancies, to hold office for the remainder of the term of the class to which these new directorships have been designated.

(c) At the discretion of the Board of Directors, any vacancy referred to in subsection (a) or (b) hereof may be filled by the vote of the shareholders entitled to vote thereon at a special meeting called for that purpose.

(d) No decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

SECTION 3. ANNUAL MEETING OF DIRECTORS. The Board of Directors shall meet each year immediately after the annual meeting of the shareholders, at the place where such meeting of the shareholders has been held either within or without the State of Indiana, for the purpose of organization, election of officers, and consideration of any other business that may properly come before the meeting. No notice of any kind to either old or new members of the Board of Directors for such annual meeting shall be necessary.

SECTION 4. REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at such times and places, either within or without the State of Indiana, as may be fixed by the Directors. Such regular meetings of the Board of Directors may be held without notice or upon such notice as may be fixed by the Directors.

SECTION 5. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President, or by not less than a majority of the members of the Board of Directors. Notice of the time and place, either within or without the State of Indiana, of a special meeting shall be served upon or telephoned to each Director at least twenty-four hours, or mailed, telegraphed or cabled to each Director at his usual place of business or residence at least forty-eight hours, prior to the time of the meeting. Directors, in lieu of such notice, may sign a written waiver of notice either before the time of the meeting, at the meeting or after the meeting. Attendance by a director in person at any such special meeting shall constitute a waiver of notice.

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SECTION 6. QUORUM. A majority of the actual number of Directors elected and qualified, from time to time, shall be necessary to constitute a quorum for the transaction of any business except the filling of vacancies, and the act of a majority of the Directors present at the meeting, at which a quorum is present, shall be the act of the Board of Directors, unless the act of a greater number is required by The Indiana Business Corporation Law, by the Articles of Incorporation, or by these By-Laws. A Director, who is present at a meeting of the Board of Directors, at which action on any corporate matter is taken, shall be conclusively presumed to have assented to the action taken, unless (a) his dissent shall be affirmatively stated by him at and before the adjournment of such meeting (in which event the fact of such dissent shall be entered by the secretary of the meeting in the minutes of the meeting), or (b) he shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. The right of dissent provided for by either clause (a) or clause (b) of the immediately preceding sentence shall not be available, in respect of any matter acted upon at any meeting, to a Director who voted at the meeting in favor of such matter and did not change his vote prior to the time that the result of the vote on such matter was announced by the chairman of such meeting.

SECTION 7. CONSENT ACTION BY DIRECTORS. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if prior to such action a written consent to such action is signed by all members of the Board of Directors or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or committee.

SECTION 8. REMOVAL OF DIRECTORS.

(a) Except as otherwise provided for herein, a director may be removed or suspended from the Board of Directors only with cause as determined by the procedures established herein.

(b) Cause for removal or suspension shall include action or failure to act on the part of the director in question which results in (i) a violation of law, rule, regulation or order, or a breach of the director's fiduciary duty, or with respect to the Corporation's banking subsidiary, involves an

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unsafe or unsound banking practice, and (ii) the Corporation or any of its subsidiaries has suffered substantial damage or the director has received financial gain from such action or omission.

(c) A determination that a director should be removed or suspended for cause shall be made only upon the affirmative vote of at least a majority in number of the members of the Board of Directors entitled to vote thereon. Any director whose removal is being considered and any other director who knowingly was involved in the action or omission giving rise to the removal or suspension proceeding, shall not be entitled to vote on the question of removal or suspension.

(d) The director whose removal or suspension is being considered shall be given written notice from the Board of Directors of the basis alleged to give rise to the cause for removal or suspension and of the day, time, and place where a hearing will be held at which the director will have the opportunity to respond. The hearing shall be held not less than ten (10) days and not more than thirty (30) days after notice has been sent to the director; provided, that, upon the written request of the director, the date of the hearing may be extended beyond the thirty (30) day period, in which case the director shall be suspended from serving on the Board of Directors for the period from the original date of the hearing to the rescheduled date.

(e) At the hearing, a representative designated by the Board of Directors shall present the basis for the removal or suspension as well as any other evidence in support thereof, whether documentary, testimonial or otherwise. This representative may be a member of the Board of Directors (in which case he shall not be entitled to vote upon the removal of the director), an officer of the Corporation or any other third party, who in any case shall have no interest in the actions or omissions to act giving rise to the proceeding. After the representative has made his presentation, the director shall have the opportunity to present evidence, whether documentary, testimonial or otherwise, refuting the basis for the removal or suspension proceeding. The representative and the director shall have the opportunity to cross-examine any witnesses for the other side, to present rebuttal testimony, and to present summary statements.

(f) After the presentation of all evidence, the Board of Directors shall vote on the issue and shall notify the director of the results in writing. If

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the vote is to remove the director, the Board of Directors, upon written request from the director, shall, within ten (10) days, present a written report setting forth the Board of Directors' findings of fact and conclusions.

(g) The director shall be entitled to be represented by counsel.

(h) Notwithstanding anything herein to the contrary, (i) any and all members of the Board of Directors may be removed, with or without cause, at a meeting of shareholders called expressly for that purpose by a vote of the holders of not less than two-thirds of the outstanding shares of stock entitled to votes at that meeting, excluding any shares held by holders of 10% or more of the outstanding common stock, and (ii) any director shall immediately cease being a director when he no longer satisfies the qualifications set by Article VII, Section 3 of the Corporation's Articles of Incorporation.

SECTION 9. DIVIDENDS. The Board of Directors shall have power, subject to any restrictions contained in The Indiana Business Corporation Law or in the Articles of Incorporation and out of funds legally available therefor, to declare and pay dividends upon the outstanding capital stock of the Corporation as and when they deem expedient. Before declaring any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time in their absolute discretion deem proper for working capital, or as a reserve or reserves to meet contingencies or for such other purposes as the Board of Directors shall deem conducive to the interests of the Corporation and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

SECTION 10. FIXING OF RECORD DATE TO DETERMINE SHAREHOLDERS ENTITLED TO RECEIVE CORPORATE BENEFITS. The Board of Directors may fix a day and hour not exceeding 50 days preceding the date fixed for payment of any dividend or for the delivery of evidence of rights, or for the distribution of other corporate benefits, or for a determination of shareholders for any other purpose, as a record time for the determination of the shareholders entitled to receive any such dividend, rights or distribution, and in such case only shareholders of record at the time so fixed shall be entitled to receive such dividend, rights or distribution. If no record date is fixed for the determination of

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shareholders entitled to receive payment of a dividend, the end of the day on which the resolution of the Board of Directors declaring such dividend is adopted shall be the record date for such determination.

SECTION 11. INTEREST OF DIRECTORS IN CONTRACTS. Any contract or other transaction between the Corporation or any corporation in which this Corporation owns a majority of the capital stock shall be valid and binding, notwithstanding the directors or officers of this Corporation are identical or that some or all of the directors or officers, or both, are also directors or officers of such other corporation.

Any contract or other transaction between the Corporation and one or more of its directors or members or employees, or between the Corporation and any firm of which one or more of its directors are members or employees or in which they are interested, or between the Corporation and any corporation or association of which one or more of its directors are stockholders, members, directors, officers, or employees or in which they are interested, shall be valid for all purposes, notwithstanding the presence of such director or directors at the meeting of the Board of Directors of the Corporation which acts upon, or in reference to, such contract or transaction and notwithstanding his or their participation in such action, if the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall authorize, approve and ratify such contract or transaction by a vote of a majority of the directors present, such interested director or directors to be counted in determining whether a quorum is present, but not to be counted in calculating the majority of such quorum necessary to carry such vote. This Section shall not be construed to invalidate any contact or other transaction which would otherwise be valid under the common and statutory law applicable thereto.

SECTION 12. COMMITTEES. The Board of Directors may, by resolution adopted by a majority of the actual number of Directors elected and qualified, from time to time, designate from among its members an executive committee and one or more other committees, each of which, to the extent provided in the resolution, the Articles of Incorporation, or these By-Laws, may exercise all of the authority of the Board of Directors of the Corporation, including, but not limited to, the authority to issue and sell or approve any contract to issue and sell, securities or shares of the Corporation or designate the terms of a series of a class of securities or shares of the Corporation. The terms which may be affixed by each such committee include, but are not limited to, the price, dividend rate, and provisions of redemption, a sinking fund,

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conversion, voting, or preferential rights or other features of securities or class or series of a class of shares. Each such committee may have full power to adopt a final resolution which sets forth those terms and to authorize a statement of such terms to be filed with the Secretary of State. However, no such committee has the authority to declare dividends or distributions, amend the Articles of Incorporation or the By-Laws, approve a plan of merger or consolidation even if such plan does not require shareholder approval, reduce earned or capital surplus, authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors, or recommend to the shareholders voluntary dissolution of the Corporation or a revocation thereof. No member of any such committee shall continue to be a member thereof after he ceases to be a Director of the Corporation. The calling and holding of meetings of any such committee and its method of procedure shall be determined by the Board of Directors. A member of the Board of Directors shall not be liable for any action taken by any such committee if he is not a member of that committee and has acted in good faith and in a manner he reasonably believes is in the best interest of the Corporation.

ARTICLE VI  
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OFFICERS

SECTION 1. PRINCIPAL OFFICERS. The principal officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents, a Treasurer and a Secretary. The Corporation may also have, at the discretion of the Board of Directors, such other subordinate officers as may be appointed in accordance with the provisions of these By-Laws. Any two or more offices may be held by the same person, except the duties of President and Secretary shall not be performed by the same person. No person shall be eligible for the office of Chairman of the Board or President who is not a director of the Corporation.

SECTION 2. ELECTION AND TERM OF OFFICE. The principal officers of the Corporation shall be chosen annually by the Board of Directors at the annual meeting thereof. Each such officer shall hold office until his successor shall



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have been duly chosen and qualified, or until his death, or until he shall resign, or shall have been removed in the manner hereinafter provided.

SECTION 3. REMOVAL. Any principal officer may be removed, either with or without cause, at any time, by resolution adopted at any meeting of the Board of Directors by a majority of the actual number of Directors elected and qualified from time to time.

SECTION 4. SUBORDINATE OFFICERS. In addition to the principal officers enumerated in Section 1 of this Article VI, the Corporation may have one or more Assistant Treasurers, one or more Assistant Secretaries and such other officers, agents and employees as the Board of Directors may deem necessary, each of whom shall hold office for such period, may be removed with or without cause, have such authority, and perform such duties as the President, or the Board of Directors may from time to time determine. The Board of Directors may delegate to any principal officer the power to appoint and to remove any such subordinate officers, agents or employees.

SECTION 5. RESIGNATIONS. Any officer may resign at any time by giving written notice to the Chairman of the Board of Directors or to the President or to the Secretary. Any such resignation shall take effect upon receipt of such notice or at any later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6. VACANCIES. Any vacancy in any office for any cause may be filled for the unexpired portion of the term in the manner prescribed in these By-Laws for election or appointment to such office for such term.

SECTION 7. CHAIRMAN OF THE BOARD. The Chairman of the Board, who shall be chosen from among the Directors, shall preside at all meetings of shareholders and at all meetings of the Board of Directors. He shall perform such other duties and have such other powers as, from time to time, may be assigned to him by the Board of Directors.

SECTION 8. PRESIDENT. The President, who shall be chosen from among the Directors, shall be the chief executive officer of the Corporation and as such shall have general supervision of the affairs of the Corporation, subject to the control of the Board of Directors. He shall be an ex officio member of all

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standing committees. In the absence or disability of the Chairman of the Board, the President shall preside at all meetings of shareholders and at all meetings of the Board of Directors. Subject to the control and direction of the Board of Directors, the President may enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. In general, he shall perform all duties and have all the powers incident to the office of President, as herein defined, and all such other duties and powers as, from time to time, may be assigned to him by the Board of Directors.

SECTION 9. VICE PRESIDENTS. The Vice Presidents in the order of their seniority, unless otherwise determined by the Board of Directors, shall, in the absence or disability of the President and Executive Vice President, perform the duties and exercise the powers of the President. They shall perform such other duties and have such other powers as the President or the Board of Directors may from time to time assign.

SECTION 10. TREASURER. The Treasurer shall have charge and custody of, and be responsible for, all funds and securities of the Corporation and shall deposit all such funds in the name of the Corporation in such banks or other depositories as shall be selected by the Board of Directors. He shall upon request exhibit at all reasonable times his books of account and records to any of the directors of the Corporation during business hours at the office of the Corporation where such books and records shall be kept; shall render upon request by the Board of Directors a statement of the condition of the finances of the Corporation at any meeting of the Board of Directors or at the annual meeting of the shareholders; shall receive, and give receipt for, moneys due and payable to the Corporation from any source whatsoever; and in general, shall perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the President or the Board of Directors. The Treasurer shall give such bond, if any, for the faithful discharge of his duties as the Board of Directors may require.

SECTION 11. SECRETARY. The Secretary shall keep or cause to be kept in the books provided for that purpose the minutes of the meetings of the shareholders and of the Board of Directors shall duly give and serve all notices required to be given in accordance with the provisions of these By-Laws and by The Indiana General Corporation Act; shall be custodian of the records and of the seal of the Corporation and see that the seal is affixed to all documents, the execution of which on behalf of the Corporation under its

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seal is duly authorized in accordance with the provisions of these By-Laws; and, in general, shall perform all duties incident to the office of Secretary and such other duties as may, from time to time, be assigned to him by the President or the Board of Directors.

SECTION 12. SALARIES. The salaries of the principal officers shall be fixed from time to time by the Board of Directors, and the salaries of any subordinate officers may be fixed by the President.

SECTION 13. VOTING CORPORATION'S SECURITIES. Unless otherwise ordered by the Board of Directors, the Chairman of the Board, the President and Secretary, and each of them, are appointed attorneys and agents of the Corporation, and shall have full power and authority in the name and on behalf of the Corporation, to attend, to act, and to vote all stock or other securities entitled to be voted at any meetings of security holders of corporations, or associations in which the Corporation may hold securities, in person or by proxy, as a stockholder or otherwise, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities, and which as the owner thereof the Corporation might have possessed and exercised, if present, or to consent in writing to any action by any such other corporation or association. The Board of Directors by resolution from time to time may confer like powers upon any other person or persons.

ARTICLE VII  
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INDEMNIFICATION OF DIRECTORS, OFFICERS AND EMPLOYEES

Every person who is or was a director, officer or employee of this Corporation or of any other corporation for which he is or was serving in any capacity at the request of this Corporation shall be indemnified by this Corporation against any and all liability and expense that may be incurred by him in connection with or resulting from or arising out of any claim, action, suit or proceeding, provided that such person is wholly successful with respect thereto or acted in good faith in what he reasonably believed to be in or not opposed to the best interests of this Corporation or such other corporation, as the case may be, and, in addition, in any criminal action or proceeding in which he had no reasonable cause to believe that his conduct was unlawful. As used herein, "claim, action, suit or proceeding" shall include

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any claim, action, suit or proceeding (whether brought by or in the right of this Corporation or such other corporation or otherwise), civil, criminal, administrative or investigative, whether actual or threatened or in connection with an appeal relating thereto, in which a director, officer or employee of this Corporation may become involved, as a party or otherwise,

(i) by reason of his being or having been a director, officer or employee of this Corporation or such other corporation or arising out of his status as such or

(ii) by reason of any past or future action taken or not taken by him in any such capacity, whether or not he continues to be such at the time such liability or expense is incurred.

The terms "liability" and "expense" shall include, but shall not be limited to, attorneys' fees and disbursements, amounts of judgments, fines or penalties, and amounts paid in settlement by or on behalf of a director, officer or employee, but shall not in any event include any liability or expenses on account of profits realized by him in the purchase or sale of securities of the Corporation in violation of the law. The termination of any claim, action, suit or proceeding, by judgment, settlement (whether with or without court approval) or conviction or upon a plea of guilty or of nolo contendere, or its equivalent, shall not create a presumption that a director, officer or employee did not meet the standards of conduct set forth in this paragraph.

Any such director, officer or employee who has been wholly successful with respect to any such claim, action, suit or proceeding shall be entitled to indemnification as a matter of right. Except as provided in the preceding sentence, any indemnification hereunder shall be made only if (i) the Board of Directors acting by a quorum consisting of Directors who are not parties to or who have been wholly successful with respect to such claim, action, suit or proceeding shall find that the director, officer or employee has met the standards of conduct set forth in the preceding paragraph; or (ii) independent legal counsel shall deliver to the Corporation their written opinion that such director, officer or employee has met such standards of conduct.

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If several claims, issues or matters of action are involved, any such person may be entitled to indemnification as to some matters even though he is not entitled as to other matters.

The Corporation may advance expenses to or, where appropriate, may at its expense undertake the defense of any such director, officer or employee upon receipt of an undertaking by or on behalf of such person to repay such expenses if it should ultimately be determined that he is not entitled to indemnification hereunder.

The provisions of this Section shall be applicable to claims, actions, suits or proceedings made or commenced after the adoption hereof, whether arising from acts or omissions to act during, before or after the adoption hereof.

The rights of indemnification provided hereunder shall be in addition to any rights to which any person concerned may otherwise be entitled by contract or as a matter of law and shall inure to the benefit of the heirs, executors and administrators of any such person.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation as a director, officer, employee or agent of another corporation against any liability asserted against him and incurred by him in any capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Section or otherwise.

ARTICLE VIII  
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AMENDMENTS

The power to make, alter, amend, or repeal these By-Laws is vested in the Board of Directors, but the affirmative vote of a majority of the actual number of directors elected and qualified, from time to time, shall be necessary to effect any alteration, amendment or repeal of these By-Laws.

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ARTICLE I  
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SHAREHOLDERS

SECTION 1.1. PLACE OF MEETING. All meetings of the shareholders, whether annual or special, shall be held at the principal office of the corporation in the State of Indiana or at such other place in Kosciusko County, Indiana, as may be determined by the Board of Directors, if notice of the place of meeting is given as provided for hereafter.

SECTION 1.2. ANNUAL MEETING. The annual meeting of the shareholders shall be held on the second Tuesday in April in each year at the hour of 2:00 p.m., or such other day or hour as shall be specified by the Board of Directors. If for any reason the annual meeting is not held on the date for said meeting, the directors shall fix another date for such meeting and the President or such other officer as he may designate shall send out notices for the same as hereinafter provided specifying that such later meeting shall be the annual meeting of the corporation.

SECTION 1.3. SPECIAL MEETINGS. Special meetings of the shareholders may be held at any time, (1) pursuant to a resolution of the Board of Directors, (2) upon a written request signed by shareholders of record holding more than 25% of the issued and outstanding common stock of the corporation filed with the President or Board of Directors stating the objects of the meeting, or (3) by order of the President.

SECTION 1.4. NOTICE OF MEETINGS. The President or such other officer designated by the President or by the Board of Directors shall mail a written or printed notice of each meeting of the shareholders, postage prepaid, to each shareholder of record at his address as the same appears upon the stock records of the corporation at least ten (10) days before the date of such meeting. All notices of meetings shall specify the time and place of the meeting. Notices of special meetings shall also specify the object or objects of such special meeting. No business other than that specified in the Notice of a special meeting shall be considered at such special meeting unless all shareholders be present in person or by proxy.

SECTION 1.5. QUORUM. A majority of the common stock issued and outstanding represented by the owners of record thereof in person or by proxy

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shall constitute a quorum for the transaction of business. If a quorum is not present at any duly called meeting, the majority in interest of the shareholders present in person or by proxy may adjourn from time to time without notice other than announcement at the meeting until a quorum is secured. At any such adjourned meeting at which a quorum is present only business that could have been transacted at the meeting originally called can be transacted.

SECTION 1.6. VOTING. At each meeting of the shareholders every shareholder shall have one (1) vote for each share of common stock standing in his name on the books of the corporation on the tenth day preceding the day of the meeting. No shares shall be voted at any meeting which shall have been transferred on the books of the corporation within ten days next preceding the date of such meeting. At any meeting of the shareholders any question before the meeting shall be settled by written ballot if so demanded by any shareholder entitled to vote. The right to vote share shall not be cumulative.

SECTION 1.7. PROXIES. Any shareholder entitled to vote at any meeting of shareholders may be represented and vote by proxy duly appointed by an instrument in writing signed by such shareholder or by his duly authorized attorney-in-fact and delivered to the Secretary of the meeting at or before the time of such meeting.

ARTICLE II  
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DIRECTORS

SECTION 2.1. ELECTION. The Board of Directors shall be elected each year by a plurality vote at the annual meeting of shareholders for such year and, subject to the provisions of this Article, shall hold office for one year or until their respective successors are elected and shall have qualified.

SECTION 2.2. NUMBER AND QUALIFICATION. The Board of Directors shall consist of twelve (12) members and each of said directors shall own, in his or her own right, or jointly with their spouse, not less than 1 share of the capital stock of the corporation, or if all of the issued and outstanding capital stock of this corporation is held of record by another domestic or foreign corporation, each director may own, in his or her own right, or jointly with their spouse, not less than 100 shares of the capital stock of the other corporation in lieu of being a shareholder of this corporation.

SECTION 2.3. PLACE OF MEETING. Every meeting of the Board of Directors shall be held at the principal office of the corporation in the State of Indiana unless the Board of Directors by resolution shall fix another place in the City of Warsaw, Indiana, or unless the notice or waivers of notice for such a meeting shall specifically designate another place.

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SECTION 2.4. ANNUAL MEETING. The annual meeting of the Board of Directors shall be held immediately following the annual meeting of the shareholders each year. No notice of the annual meeting of the Board of Directors shall be necessary.

SECTION 2.5. REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held on the second Tuesday of each month, or upon such other day of each month as the Board of Directors may determine by resolution from time to time. No notice of a regular meeting shall be necessary.

SECTION 2.6. SPECIAL MEETING. Special meetings of the Board of Directors may be held upon a call by the Chairman of the Board or the President or either of them must call a special meeting of the Board of Directors upon the written request of any five (5) directors. At least three (3) days' notice by telephone or telegraph shall be given to each director not less than 3 days before the meeting. Such notice shall specify by whom the meeting is called, the time, place and object thereof. No other business than that specified in the notice of such meeting shall be transacted thereat unless all members of the Board be present and consent thereto. Notice of any meeting may be waived by any director. When all of the directors shall be present at any meeting, however called or notified, or shall sign a written consent thereto, the acts of such meetings shall be as valid as if the same had been legally called pursuant to proper notice.

SECTION 2.7. QUORUM. A majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board. If at any meeting of the Board there be less than a quorum present, a majority of those present may adjourn the meeting from time to time. A record shall be kept of all meetings showing the names of those directors present at each meeting.

SECTION 2.8. REMOVAL. Any director may be removed for good cause at any time at a special meeting of the shareholders called for such purpose by the affirmative vote of the holders of a majority of the common stock issued and outstanding.

SECTION 2.9. VACANCIES. A vacancy shall exist in the Board of Directors upon the death, legal incompetency, resignation, removal for cause or failure of a director to continue to own in his own right, free of any lien or



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encumbrance, capital stock as required by Section 2.2 of this Article II. The remaining directors, by affirmative vote of a majority of the Board, may elect successor to hold office for the unexpired term of any director whose place be vacant.

Should the membership of the Board at any time fall below the number necessary to constitute a quorum then a special meeting of the shareholders shall be called by the President, or if there be no President, by the Chairman of the Board, or if there be neither a President or a Chairman of the Board, then by a Vice President and such number of directors shall be elected at such special meeting as may be necessary to restore the Board to its full membership.

SECTION 2.10. POWERS. The Board of Directors shall have entire charge of the property, business interests and general operation of the corporation with full authority to manage and conduct the same.

SECTION 2.11. RETIREMENT. Any person elected to the office of director shall resign such office at the end of the calendar month during which he attains his 70th birthday.

SECTION 2.12. DIRECTORS EMERITUS. The Board of Directors may from time to time elect one or more directors emeritus to serve as such at the pleasure of the Board. The term of office of each director emeritus shall expire at the annual meeting of the Board of Directors next succeeding his election. A director emeritus may be re-elected as such. Each director emeritus may attend any meeting of the Board of Directors, but shall not be entitled to a vote on any question before the Board.

SECTION 2.13. ACTION WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if prior to such action, written consent thereto is signed by all members of the Board of Directors and such written consent or consents are filed with the minutes of the proceedings of the Board of Directors.

SECTION 2.14. DIRECTORS FEES. Each outside director (one who is not a full-time employee of the Bank) shall receive a fee for each meeting of the

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Board of Directors which he or she attends. Each outside director shall also receive a fee for each meeting he or she attends of any standing committee of which he or she is a member. The amount of such fees shall be fixed from time to time by the Board of Directors. Such fees shall be paid as of June 30 and December 31 each year.

Inside directors (those who are full-time employees of the Bank) shall receive no fee for attendance at meetings of the Board of Directors or any committee thereof.

ARTICLE III  
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OFFICERS

SECTION 3.1. ELECTION. The officers of this corporation shall be a Chairman of the Board, a President, one or more Vice-Presidents in one or more levels, a Secretary, a Trust Officer, an Auditor and such other officers or assistant officers as may be determined from time to time by the Board of Directors. The officers of the corporation shall be elected by the Board of Directors at the annual meeting of the Board for a term of one (1) year and until their respective successors are elected and qualified, or such other term as the Board may provide. The Board may elect additional officers from time to time during the year as such Board deems necessary.

SECTION 3.2. REMOVAL. Any officer may be removed at any time with or without cause by a majority vote of the Board of Directors at any meeting.

SECTION 3.3. SUSPENSION. Any officer may be suspended by the President until the next meeting of the Board of Directors.

SECTION 3.4. VACANCIES. If a vacancy occurs in any office by reason of death, legal incompetency, resignation or removal, the Board of Directors may elect a successor to hold the office for any unexpired term.

SECTION 3.5. DUTIES. The officers of this corporation shall have such duties and responsibilities as the Board of Directors may determine by rule or regulation from time to time.

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ARTICLE IV  
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COMMITTEES

SECTION 4.1. STANDING COMMITTEES. The standing committees of the Board shall be an Audit Committee, a Loan and Investment Committee and a Trust Committee.

SECTION 4.2. APPOINTMENT. The members of the standing committees shall be appointed at the annual meeting of the Board of Directors each year by the Chairman of the Board with the advice and consent of the Board. The Chairman of the Board may fill any vacancy that may exist in the membership of any standing committee.

SECTION 4.3. AUDIT COMMITTEE. The Audit Committee shall consist of three members of the Board of Directors, not active officers of the corporation. The Audit Committee shall cause the record books and accounts of the corporation to be examined at least once each year by a certified public accountant or accounting firm designated by the Board of Directors and approved by the shareholders and shall submit a complete written statement of the condition of the corporation to the Board of Directors and the Department of Financial Institutions promptly after such examination.

The Audit Committee shall meet with the President and Auditor of the corporation and determine the policies and procedures of internal audits to be conducted under the direction of the Auditor and shall institute or recommend such other security measures as it may deem necessary from time to time.

SECTION 4.4. LOAN AND INVESTMENT COMMITTEE. The Loan and Investment Committee shall consist of the President, a loan officer, and four other members of the Board. This committee by a majority vote may without prior approval of the Board authorize the officers to make any loan or investment permitted by law. This committee shall meet with the loan officers from time to time and review loans, investments and credit policies.

SECTION 4.5. TRUST COMMITTEE. The Trust Committee shall consist of the Trust Officer, the President, and four other directors. The Trust Committee

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LAKE CITY BANK, WARSAW, INDIANA

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shall exercise all fiduciary powers and discretionary fiduciary authority granted to this corporation whether by will, trust instrument or statute.

SECTION 4.6. SPECIAL COMMITTEES. The Board of Directors may establish by resolution such temporary or special committees as it deems proper and provide in the resolution establishing the committee, its membership and duties.

SECTION 4.7. ACTION BY COMMITTEE WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of any committee may be taken without a meeting if prior to such action, a written consent thereto is signed by all members of the committee and such written consent or consents are filed with the minutes of the proceedings of the committee.

SECTION 4.8. EX-OFFICIO MEMBERSHIP. All directors shall be considered ex-officio members of all committees and shall be welcome to attend meetings of any committee. No director shall receive a fee, however, for attendance at the meeting of any committee to which he has not been specifically appointed.

SECTION 4.9. RULES, REGULATIONS AND POLICY. Each committee may adopt such rules, regulations and policy statements for the conduct of its proceedings, carry out its duties or exercising the authority granted to it as it may deem proper provided (a) such rules, regulations and policies are not in conflict with any law, rules or regulations of any governmental agency having the power to regulate this corporation, the Articles of Incorporation of this corporation and these By-Laws, and (b) no committee may delegate its discretionary powers to an individual.

ARTICLE V  
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STOCK CERTIFICATE AND SEAL

SECTION 5.1. CERTIFICATES. Each shareholder shall be entitled to a certificate or certificates showing the number of shares of capital stock standing in his name on the books of this corporation. Each certificate shall

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be numbered consecutively and shall bear the signatures of the President or a Vice President and the secretary or an assistant secretary or the Auditor, and the corporate seal shall be affixed thereto. A full record of each certificate of stock as issued shall be maintained and such record shall be the sole and exclusive evidence of the persons who are entitled to receive dividends thereon and vote at meetings of shareholders.

SECTION 5.2. FORM OF CERTIFICATE. The stock certificates evidencing the shares of common stock of this corporation shall be in the form determined by the Board of Directors from time to time.

SECTION 5.3. TRANSFER OF SHARES. Title to a certificate and the shares represented thereby shall be transferable on the records of this corporation in person, or by attorney only upon surrender of the certificate representing the stock to be transferred properly endorsed or accompanied by a separate document containing a proper written assignment or power of attorney. Surrendered certificates shall be canceled and a record thereof maintained by this corporation.

SECTION 5.4. LOST CERTIFICATES. In case of loss or destruction of a stock certificate, the owner shall not be entitled to receive a new certificate in lieu thereof until: (a) a written notice of such loss or destruction has been received by this corporation together with satisfactory proof by affidavit of such loss or destruction and (b) ample indemnity by bond or otherwise is given to this corporation. The Board of Directors at its election may refuse the issue of any certificates in lieu of a lost or destroyed certificate until an order of a Court of competent jurisdiction providing therefor has been secured by the owner.

SECTION 5.5. CORPORATION SEAL. The corporation seal shall be a circular disk with the name of this corporation and the words "Corporate Seal" inscribed thereon.

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ARTICLE VI  
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MISCELLANEOUS

SECTION 6.1. FISCAL YEAR. The fiscal year of this corporation shall begin on January 1 and end on December 31.

SECTION 6.2. BOOKS AND RECORDS. All official books and records of the corporation shall be kept in the principal office of the corporation and shall be open during business hours to the inspection of any of the shareholders subject to such regulations as the Board of Directors may prescribe from time to time, except nothing herein contained shall be construed to permit inspection or examination of individual depositors' or borrowers' accounts.

SECTION 6.3. NOTICES AND WAIVERS. Any written notice provided for in these By-Laws may be given by ordinary mail addressed to the person to be notified at such address as appears on the books of the corporation and such notice shall be deemed to be given on the date the same is deposited in a United States Post Office, postage prepaid, properly addressed.

Any shareholder, director or officer may waive in writing any notice required to be given under these By-Laws, whether before or after the time stated therein. Attendance and participation in a meeting without objection to a failure to give notice shall be deemed a waiver of any notice required.

SECTION 6.4. RULES AND REGULATIONS. The Board of Directors may prescribe, establish and amend from time to time such rules, regulations and policies as it may deem proper for the conduct of the business affairs of this corporation as are consistent with law, regulations of supervisory authorities, the Articles of Incorporation and these By-Laws.

SECTION 6.5. AMENDMENTS. After adoption, these By-Laws may be amended or repealed in whole or in part only by the affirmative vote of a majority of all the members of the Board of Directors at a meeting held five days after notice is given to all directors of the proposed amendment or repeal.

THIS SCHEDULE CONTAINS FINANCIAL INFORMATION EXTRACTED FROM THE SECOND QUARTER 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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6-MOS			
	DEC-31-1996		
	JAN-01-1996		
	JUN-30-1996		40,248
	200		
		209	
		0	
83,145			
	120,365		
	118,830		
		349,940	
		5,365	
		613,827	
		468,283	
		81,914	
	5,189		
		19,432	
	0		
		0	
		1,448	
		37,561	
613,827			
	15,942		
	6,199		
	60		
	22,201		
	9,033		
	11,449		
	10,752		
		60	
	(6)		
	8,497		
	5,026		
3,218			
	0		
		0	
	3,218		
	1.11		
	1.11		
	3.97		
		160	
		351	
	1,404		
	0		
	5,472		
		198	
		31	
	5,365		
	1,432		
	0		
3,933			

EARNINGS PER SHARE REFLECT A TWO-FOR-ONE STOCK SPLIT EFFECTIVE APRIL 30, 1996. FINANCIAL DATA SCHEDULES PRIOR TO THE FIRST QUARTER OF 1996 HAVE NOT BEEN RESTATED FOR THIS STOCK SPLIT.