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FIRST MERCHANTS CORP  
Form 8-K  
October 20, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 8-K

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

-----  
DATE OF REPORT (Date of earliest event reported): October 20, 2004  
-----

FIRST MERCHANTS CORPORATION  
(Exact name of registrant as specified in its charter)  
-----

|  |                                     |  |
|--|-------------------------------------|--|
| INDIANA<br>(State or other jurisdiction<br>of incorporation) | 0-17071<br>(Commission file number) | 35-1544218<br>(IRS Employer<br>Identification No.) |
|--|-------------------------------------|--|

200 East Jackson Street  
P.O. Box 792  
Muncie, IN 47305-2814  
(Address of principal executive offices, including zip code)

(765) 747-1500  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Page 1 of 10

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On October 20, 2004, First Merchants Corporation issued a press release to report its financial results for the third quarter ended September

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30, 2004. The press release, attached hereto as Exhibit 99.1, is being furnished by the Registrant and is not being filed.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

Exhibit 99.1 Press Release, dated October 20, 2004, issued by  
First Merchants Corporation

Page 2 of 10

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 hereunto duly authorized.

First Merchants Corporation  
(Registrant)

By: /s/ Mark K. Hardwick

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Mark K. Hardwick  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial and Chief  
Accounting Officer)

Dated: October 20, 2004

Page 3 of 10

EXHIBIT INDEX

Exhibit No.

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99.1

Description

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Press Release, dated October 20, 2004, issued by  
First Merchants Corporation.

Page 4 of 10

First Merchants Corporation

Exhibit No. 99.1

Press Release, dated October 20, 2004

N / E / W / S R / E / L / E / A / S / E

October 20, 2004

FOR IMMEDIATE RELEASE

For more information, contact:

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Mark K. Hardwick, Senior Vice President/Chief Financial Officer, 765-751-1857  
<http://firstmerchants.com>

SOURCE: First Merchants Corporation, Muncie, Indiana

### FIRST MERCHANTS CORPORATION ANNOUNCES 5 PERCENT INCREASE IN THIRD QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported third quarter diluted earnings per share totaled \$.41, a 5.1 percent increase over \$.39 recorded in 2003. Net income during the period totaled \$7.7 million compared to \$7.3 million in 2003.

September 30, 2004, year-to-date, diluted earnings per share equaled \$1.18 versus \$1.19 recorded in 2003. Year-to-date net income totaled \$21.9 million compared to \$21.8 million in 2003.

Quarterly net interest income after the provision for loan losses improved by \$1.2 million, or 5.1 percent. Total non-interest income declined by \$466,000 as gains from the sale of mortgage loans declined by \$658,000. Non-interest expenses for the quarter were reduced by \$170,000.

Year-to-date net interest income after the provision for loan losses improved by \$4.4 million, or 6.3 percent. However, gains from the sale of mortgage loans declined during the same period by 50 percent or \$2.8 million. Non-interest expense increased by 1 percent or \$641,000.

Total assets equaled \$3.2 billion as of September 30, 2004, an increase of \$170 million from September 30, 2003. Loans, investments and bank owned life insurance, the Corporation's three primary earning assets, totaled \$2.9 billion, an increase of \$151 million over the September 30, 2003 amount of \$2.7 billion. The improvement in earning assets was funded by increased deposits and capital of \$159 million.

Michael L. Cox, President and Chief Executive Officer, stated that, "First Merchants Corporation's third quarter 2004 results represent a continuation of positive trends. Increases in the Federal Open Market Committee's target Fed Funds rate of an additional 50 basis points during the quarter improved our net interest income by \$945,000 over the second quarter of 2004. We are seeing continued modest improvement in middle-market lending activity in our metropolitan markets. Overall, economic activity is showing increased stimulus accompanied by slight upward pressure on deposit rates."

Page 5 of 10

### CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Standard Time/3:30 p.m. Eastern Daylight Time on Wednesday, October 20, 2004. To participate dial 888-710-8192 and reference First Merchants Corporation's third quarter earnings release. A digital recording will be available two hours after the completion of the conference from October 20, 2004, to October 22, 2004. To access, US/Canada participants should call 800-642-1687 or for International/Local participants, call 706-645-9291 and enter the Conference I.D. 1347220.

During the call we may make Forward Looking statements about our relative business outlook. These Forward Looking statements and all other statements made during the call that do not concern historical facts are subject to risks and uncertainties that may materially affect actual results.

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Specific Forward Looking statements include but are not limited to any indications regarding the Financial Services industry, the economy and future growth of the balance sheet or income statement.

Detailed financial results are reported on the attached pages.

First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana. Subsidiaries of the Corporation include First Merchants Bank, NA, Madison Community Bank, First United Bank, Union County National Bank, The Randolph County Bank, First National Bank, Decatur Bank & Trust Company, Frances Slocum Bank, Lafayette Bank & Trust Company, Commerce National Bank and Merchants Trust Company. The Corporation also operates First Merchants Insurance Services, a full-service property casualty, personal lines, and healthcare insurance agency, headquartered in Muncie, Indiana, and is a majority member of Indiana Title Insurance Company, LLC, a title insurance agency.

First Merchants Corporation's common stock is traded over-the-counter on the NASDAQ National Market System under the symbol FRME. Quotations are carried in daily newspapers and can be found on the company's Internet web page (<http://www.firstmerchants.com>).

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Page 6 of 10

### CONSOLIDATED BALANCE SHEETS

(in thousands)

|  | September 30, |              |
|--|---------------|--------------|
|  | 2004          | 2003         |
| <b>Assets</b>                                    |               |              |
| Cash and due from banks                          | \$ 73,367     | \$ 87,619    |
| Federal funds sold                               | 22,700        | 0            |
|  | -----         | -----        |
| Cash and cash equivalents                        | 96,067        | 87,619       |
| Interest-bearing time deposits                   | 12,204        | 3,789        |
| Investment securities                            | 420,645       | 316,852      |
| Mortgage loans held for sale                     | 2,715         | 12,042       |
| Loans  | 2,395,306     | 2,351,405    |
| Less: Allowance for loan losses                  | (25,243)      | (29,842)     |
|  | -----         | -----        |
| Net Loans  | 2,370,063     | 2,321,563    |
| Premises and equipment                           | 38,170        | 39,475       |
| Federal Reserve and Federal Home Loan Bank stock | 22,750        | 14,057       |
| Interest receivable                              | 17,594        | 17,139       |
| Core deposit intangibles and goodwill            | 140,186       | 143,648      |
| Cash surrender value of life insurance           | 41,700        | 37,536       |
| Other assets                                     | 19,268        | 18,000       |
|  | -----         | -----        |
| Total assets                                     | \$ 3,181,362  | \$ 3,011,720 |
|  | =====         | =====        |
| <b>Liabilities</b>                               |               |              |
| Deposits   |               |              |
| Noninterest-bearing                              | \$ 373,548    | \$ 316,058   |
| Interest-bearing                                 | 2,083,271     | 1,994,146    |
|  | -----         | -----        |
| Total deposits                                   | 2,456,819     | 2,310,204    |

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|  |              |              |
|--|--------------|--------------|
| Borrowings   | 379,922      | 374,051      |
| Interest payable                                   | 5,706        | 5,200        |
| Other liabilities                                  | 25,253       | 21,064       |
|  | -----        | -----        |
| Total liabilities                                  | 2,867,700    | 2,710,519    |
| Stockholders' equity                               |              |              |
| Preferred stock, no-par value                      |              |              |
| Authorized and unissued -- 500,000 shares          |              |              |
| Common stock, \$.125 stated value                  |              |              |
| Authorized -- 50,000,000 shares                    |              |              |
| Issued and outstanding - 18,562,001 and 18,487,974 | 2,320        | 2,311        |
| Additional paid-in capital                         | 148,993      | 149,810      |
| Retained earnings                                  | 160,004      | 147,559      |
| Accumulated other comprehensive income (loss)      | 2,345        | 1,521        |
|  | -----        | -----        |
| Total stockholders' equity                         | 313,662      | 301,201      |
|  | -----        | -----        |
| Total liabilities and stockholders' equity         | \$ 3,181,362 | \$ 3,011,720 |
|  | =====        | =====        |

FINANCIAL HIGHLIGHTS

| (In thousands)             | Three Months Ended |             | Nine Months Ended |             |
|----------------------------|--------------------|-------------|-------------------|-------------|
|                            | September 30,      |             | September 30,     |             |
|                            | 2004               | 2003        | 2004              | 2003        |
| NET CHARGE OFF'S           | \$ 2,053           | \$ 2,503    | \$ 4,722          | \$ 4,732    |
| AVERAGE BALANCES           |                    |             |                   |             |
| Total Assets               | \$3,132,228        | \$3,030,935 | \$3,083,919       | \$2,923,015 |
| Total Loans                | 2,383,942          | 2,348,817   | 2,355,535         | 2,258,725   |
| Total Deposits             | 2,382,347          | 2,305,589   | 2,338,694         | 2,221,870   |
| Total Stockholders' Equity | 309,744            | 301,048     | 308,035           | 290,503     |

FINANCIAL RATIOS

|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Return on Average Assets                            | .98%  | .97%  | .95%  | .99%  |
| Return on Avg. Stockholders' Equity                 | 9.88  | 9.76  | 9.50  | 9.98  |
| Avg. Earning Assets to Avg. Assets                  | 89.98 | 89.48 | 89.89 | 89.92 |
| Allowance for Loan Losses as %<br>Of Total Loans    | 1.05  | 1.26  | 1.05  | 1.26  |
| Net Charge Off's as % Of Avg. Loans<br>(Annualized) | .34   | .43   | .27   | .28   |
| Dividend Payout Ratio                               | 56.10 | 58.97 | 58.47 | 56.30 |
| Avg. Stockholders' Equity to Avg. Assets            | 9.89  | 9.93  | 9.99  | 9.94  |
| Tax Equivalent Yield on Earning Assets              | 5.79  | 5.89  | 5.71  | 6.11  |
| Cost of Supporting Liabilities                      | 1.85  | 1.93  | 1.82  | 2.01  |
| Net Int. Margin (FTE) on Earning Assets             | 3.94  | 3.96  | 3.89  | 4.10  |

Page 7 of 10

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

Three Months Ended

Nine Months En

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|  | September 30,<br>2004 | September 30,<br>2003 | September 30,<br>2004 | September 30,<br>2003 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Interest Income</b>                                       |                       |                       |                       |                       |
| Loans receivable   |                       |                       |                       |                       |
| Taxable  | \$ 35,342             | \$ 35,607             | \$103,590             | \$106,590             |
| Tax exempt   | 143                   | 185                   | 443                   | 443                   |
| Investment securities  |                       |                       |                       |                       |
| Taxable  | 2,146                 | 1,342                 | 6,147                 | 4,147                 |
| Tax exempt   | 1,679                 | 1,562                 | 4,529                 | 4,529                 |
| Federal funds sold   | 18                    | 49                    | 73                    | 73                    |
| Deposits with financial institutions                         | 154                   | 13                    | 388                   | 388                   |
| Federal Reserve and Federal Home Loan Bank stock             | 319                   | 201                   | 954                   | 954                   |
|  | -----                 | -----                 | -----                 | -----                 |
| <b>Total interest income</b>                                 | <b>39,801</b>         | <b>38,959</b>         | <b>116,124</b>        | <b>117,124</b>        |
|  | -----                 | -----                 | -----                 | -----                 |
| <b>Interest expense</b>                                      |                       |                       |                       |                       |
| Deposits   | 8,487                 | 8,623                 | 24,556                | 26,556                |
| Securities sold under repurchase agreements                  | 16                    | 370                   | 334                   | 1,370                 |
| Federal Home Loan Bank advances                              | 2,484                 | 2,409                 | 7,359                 | 7,359                 |
| Subordinated debentures, revolving credit and term loans     | 1,822                 | 1,575                 | 5,067                 | 4,067                 |
| Other borrowings   | 200                   | 108                   | 537                   | 537                   |
|  | -----                 | -----                 | -----                 | -----                 |
| <b>Total interest expense</b>                                | <b>13,009</b>         | <b>13,085</b>         | <b>37,853</b>         | <b>39,085</b>         |
|  | -----                 | -----                 | -----                 | -----                 |
| Net interest income  | 26,792                | 25,874                | 78,271                | 77,874                |
| Provision for loan losses                                    | 1,380                 | 1,706                 | 4,472                 | 8,472                 |
|  | -----                 | -----                 | -----                 | -----                 |
| Net interest income after provision for loan losses          | 25,412                | 24,168                | 73,799                | 69,402                |
|  | -----                 | -----                 | -----                 | -----                 |
| <b>Other income</b>  |                       |                       |                       |                       |
| Fiduciary activities   | 1,923                 | 1,547                 | 5,735                 | 5,735                 |
| Service charges on deposit accounts                          | 2,946                 | 2,861                 | 8,714                 | 8,714                 |
| Other customer fees  | 979                   | 961                   | 3,015                 | 3,015                 |
| Net realized gains on sales of available-for-sale securities | 332                   | 512                   | 732                   | 732                   |
| Commission income  | 687                   | 638                   | 2,417                 | 2,417                 |
| Earnings on cash surrender value of life insurance           | 448                   | 498                   | 1,359                 | 1,359                 |
| Net gains and fees on sales of loans                         | 675                   | 1,332                 | 2,828                 | 5,828                 |
| Other income   | 421                   | 527                   | 1,083                 | 2,083                 |
|  | -----                 | -----                 | -----                 | -----                 |
| <b>Total other income</b>                                    | <b>8,411</b>          | <b>8,876</b>          | <b>25,883</b>         | <b>28,883</b>         |
|  | -----                 | -----                 | -----                 | -----                 |
| <b>Other expenses</b>  |                       |                       |                       |                       |
| Salaries and employee benefits                               | 13,087                | 13,206                | 39,170                | 37,206                |
| Net occupancy expenses                                       | 1,391                 | 1,189                 | 3,980                 | 3,189                 |
| Equipment expenses   | 1,853                 | 1,996                 | 5,786                 | 5,996                 |
| Marketing expense  | 363                   | 414                   | 1,188                 | 1,414                 |
| Deposit insurance expense                                    |                       |                       |                       |                       |
| Outside data processing fees                                 | 1,328                 | 1,025                 | 3,762                 | 3,025                 |
| Printing and office supplies                                 | 397                   | 401                   | 1,183                 | 1,401                 |
| Goodwill and core deposit amortization                       | 827                   | 958                   | 2,571                 | 2,958                 |
| Other expenses   | 3,544                 | 3,771                 | 10,336                | 11,771                |
|  | -----                 | -----                 | -----                 | -----                 |
| <b>Total other expenses</b>                                  | <b>22,790</b>         | <b>22,960</b>         | <b>67,976</b>         | <b>67,960</b>         |
|  | -----                 | -----                 | -----                 | -----                 |

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|                          |          |          |           |        |
|--------------------------|----------|----------|-----------|--------|
| Income before income tax | 11,033   | 10,084   | 31,706    | 30,    |
| Income tax expense       | 3,380    | 2,735    | 9,763     | 8,     |
|                          | -----    | -----    | -----     | -----  |
| Net income               | \$ 7,653 | \$ 7,349 | \$ 21,943 | \$ 21, |
|                          | =====    | =====    | =====     | =====  |

Per Share Data

|                     |     |     |      |   |
|---------------------|-----|-----|------|---|
| Basic Net Income    | .41 | .40 | 1.18 | 1 |
| Diluted Net Income  | .41 | .39 | 1.18 | 1 |
| Cash Dividends Paid | .23 | .23 | .69  |   |

Page 8 of 10

CONSOLIDATED BALANCE SHEETS

| (in thousands)                                   | September 30,<br>2004 | June 30,<br>2004 | March 31,<br>2004 | December 31,<br>2003 |
|--|-----------------------|------------------|-------------------|----------------------|
| <b>Assets</b>                                    |                       |                  |                   |                      |
| Cash and due from banks                          | \$ 73,367             | \$ 72,432        | \$ 60,366         | \$ 77,111            |
| Federal funds sold                               | 22,700                | 0                | 0                 | 32,411               |
|  | -----                 | -----            | -----             | -----                |
| Cash and cash equivalents                        | 96,067                | 72,432           | 60,366            | 109,521              |
| Interest-bearing time deposits                   | 12,204                | 20,424           | 10,674            | 8,141                |
| Investment securities                            | 420,645               | 411,140          | 376,974           | 356,791              |
| Mortgage loans held for sale                     | 2,715                 | 4,001            | 3,883             | 3,041                |
| Loans  | 2,395,306             | 2,365,380        | 2,320,103         | 2,353,501            |
| Less: Allowance for loan losses                  | (25,243)              | (25,510)         | (26,459)          | (25,491)             |
|  | -----                 | -----            | -----             | -----                |
| Net loans  | 2,370,063             | 2,339,870        | 2,293,644         | 2,328,011            |
| Premises and equipment                           | 38,170                | 38,437           | 38,972            | 39,631               |
| Federal Reserve and Federal Home Loan Bank stock | 22,750                | 22,494           | 21,956            | 15,501               |
| Interest receivable                              | 17,594                | 14,943           | 15,061            | 16,841               |
| Core deposit intangibles and goodwill            | 140,186               | 141,014          | 141,867           | 142,721              |
| Cash surrender value of life insurance           | 41,700                | 41,288           | 40,843            | 37,921               |
| Other assets                                     | 19,268                | 22,247           | 20,901            | 18,661               |
|  | -----                 | -----            | -----             | -----                |
| Total assets                                     | \$ 3,181,362          | \$ 3,128,290     | \$ 3,025,041      | \$ 3,076,811         |
|  | =====                 | =====            | =====             | =====                |
| <b>Liabilities</b>                               |                       |                  |                   |                      |
| <b>Deposits</b>                                  |                       |                  |                   |                      |
| Noninterest-bearing                              | \$ 373,548            | \$ 334,018       | \$ 303,694        | \$ 338,201           |
| Interest-bearing                                 | 2,083,271             | 2,038,092        | 2,009,726         | 2,023,901            |
|  | -----                 | -----            | -----             | -----                |
| Total deposits                                   | 2,456,819             | 2,372,110        | 2,313,420         | 2,362,101            |
| Borrowings                                       | 379,922               | 422,885          | 372,356           | 383,171              |
| Interest payable                                 | 5,706                 | 4,216            | 4,542             | 4,681                |
| Other liabilities                                | 25,253                | 24,811           | 25,676            | 22,891               |
|  | -----                 | -----            | -----             | -----                |
| Total liabilities                                | 2,867,700             | 2,824,022        | 2,715,994         | 2,772,841            |
| <b>Stockholders' equity</b>                      |                       |                  |                   |                      |
| Preferred stock, no-par value                    |                       |                  |                   |                      |
| Authorized and unissued -- 500,000 shares        |                       |                  |                   |                      |
| Common stock, \$.125 stated value                |                       |                  |                   |                      |
| Authorized -- 50,000,000 shares                  |                       |                  |                   |                      |
| Issued and outstanding                           | 2,320                 | 2,310            | 2,317             | 2,311                |

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|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Additional paid-in capital                    | 148,993      | 149,194      | 150,679      | 150,311      |
| Retained earnings                             | 160,004      | 154,876      | 151,771      | 149,091      |
| Accumulated other comprehensive income (loss) | 2,345        | (2,112)      | 4,380        | 2,241        |
|   | -----        | -----        | -----        | -----        |
| Total stockholders' equity                    | 313,662      | 304,268      | 309,147      | 303,961      |
|   | -----        | -----        | -----        | -----        |
| Total liabilities and stockholders' equity    | \$ 3,181,362 | \$ 3,128,290 | \$ 3,025,141 | \$ 3,076,811 |
|   | =====        | =====        | =====        | =====        |

NON-PERFORMING ASSETS

|  |                       |                  |                   |                      |                   |
|--|-----------------------|------------------|-------------------|----------------------|-------------------|
| (In thousands)   | September 30,<br>2004 | June 30,<br>2004 | March 31,<br>2004 | December 31,<br>2003 | September<br>2003 |
| 90 days past due   | \$ 6,664              | \$ 2,488         | \$ 4,770          | \$ 6,530             | \$ 4,791          |
| Non-accrual loans  | 16,852                | 17,702           | 19,914            | 19,453               | 20,091            |
| Other real estate  | 1,546                 | 1,653            | 1,571             | 1,399                | 1,541             |
|  | -----                 | -----            | -----             | -----                | -----             |
| Total non-performing assets  | \$ 25,062             | \$ 21,843        | \$ 26,255         | \$ 27,382            | \$ 26,431         |
|  | =====                 | =====            | =====             | =====                | =====             |
| Average total loans for the quarter                                | \$2,383,942           | \$2,343,270      | \$2,339,080       | \$ 2,349,536         | \$ 2,348,811      |
| Total non-performing assets as a<br>percent of average total loans | 1.05%                 | .93%             | 1.12%             | 1.17%                | 1.13%             |
| Restructured loans   | \$ 2,169              | \$ 926           | \$ 957            | \$ 641               | \$ 647            |

Page 9 of 10

CONSOLIDATED STATEMENTS OF INCOME

|  |                       |                  |                   |                      |
|--|-----------------------|------------------|-------------------|----------------------|
|  | Three Months Ended    |                  |                   |                      |
| (in thousands, except share data)                | September 30,<br>2004 | June 30,<br>2004 | March 31,<br>2004 | December 31,<br>2003 |
| Interest Income                                  |                       |                  |                   |                      |
| Loans receivable                                 |                       |                  |                   |                      |
| Taxable  | \$ 35,342             | \$ 34,021        | \$ 34,227         | \$ 34,697            |
| Tax exempt                                       | 143                   | 137              | 163               | 195                  |
| Investment securities                            |                       |                  |                   |                      |
| Taxable  | 2,146                 | 2,052            | 1,949             | 1,484                |
| Tax exempt                                       | 1,679                 | 1,420            | 1,430             | 1,451                |
| Federal funds sold                               | 18                    | 37               | 18                | 148                  |
| Deposits with financial institutions             | 154                   | 125              | 109               | 22                   |
| Federal Reserve and Federal Home Loan Bank stock | 319                   | 307              | 328               | 39                   |
|  | -----                 | -----            | -----             | -----                |
| Total interest income                            | 39,801                | 38,099           | 38,224            | 38,036               |
|  | -----                 | -----            | -----             | -----                |
| Interest expense                                 |                       |                  |                   |                      |
| Deposits   | 8,487                 | 7,879            | 8,190             | 8,303                |
| Securities sold under repurchase agreements      | 16                    | 98               | 220               | 248                  |
| Federal Home Loan Bank advances                  | 2,484                 | 2,433            | 2,442             | 2,362                |



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|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Subordinated debentures, revolving credit<br>and term loans     | 1,822    | 1,635    | 1,610    | 1,587    |
| Other borrowings  | 200      | 207      | 130      | 233      |
|   | -----    | -----    | -----    | -----    |
| Total interest expense  | 13,009   | 12,252   | 12,592   | 12,733   |
|   | -----    | -----    | -----    | -----    |
| Net interest income   | 26,792   | 25,847   | 25,632   | 25,303   |
| Provision for loan losses                                       | 1,380    | 1,720    | 1,372    | 1,047    |
|   | -----    | -----    | -----    | -----    |
| Net interest income<br>after provision for loan losses          | 25,412   | 24,127   | 24,260   | 24,256   |
|   | -----    | -----    | -----    | -----    |
| Other income  |          |          |          |          |
| Fiduciary activities  | 1,923    | 2,002    | 1,810    | 1,603    |
| Service charges on deposit accounts                             | 2,946    | 2,996    | 2,772    | 2,717    |
| Other customer fees   | 979      | 966      | 1,070    | 1,039    |
| Net realized gains on sales of<br>available-for-sale securities | 332      | 363      | 37       | 0        |
| Commission income   | 687      | 777      | 953      | 569      |
| Earnings on cash surrender value<br>of life insurance           | 448      | 482      | 429      | 446      |
| Net gains and fees on sales of loans                            | 675      | 1,352    | 801      | 770      |
| Other income  | 421      | 318      | 344      | 443      |
|   | -----    | -----    | -----    | -----    |
| Total other income  | 8,411    | 9,256    | 8,216    | 7,587    |
|   | -----    | -----    | -----    | -----    |
| Other expenses  |          |          |          |          |
| Salaries and employee benefits                                  | 13,087   | 13,059   | 13,024   | 12,599   |
| Net occupancy expenses  | 1,391    | 1,335    | 1,254    | 1,414    |
| Equipment expenses  | 1,853    | 1,954    | 1,979    | 2,217    |
| Marketing expense   | 363      | 385      | 440      | 538      |
| Outside data processing fees                                    | 1,328    | 1,211    | 1,223    | 1,063    |
| Printing and office supplies                                    | 397      | 388      | 398      | 466      |
| Goodwill and core deposit amortization                          | 827      | 852      | 892      | 923      |
| Other expenses  | 3,544    | 3,438    | 3,354    | 4,623    |
|   | -----    | -----    | -----    | -----    |
| Total other expenses  | 22,790   | 22,622   | 22,564   | 23,843   |
|   | -----    | -----    | -----    | -----    |
| Income before income tax  | 11,033   | 10,761   | 9,912    | 8,000    |
| Income tax expense  | 3,380    | 3,406    | 2,977    | 2,181    |
|   | -----    | -----    | -----    | -----    |
| Net income  | \$ 7,653 | \$ 7,355 | \$ 6,935 | \$ 5,819 |
|   | =====    | =====    | =====    | =====    |
| Per Share Data  |          |          |          |          |
| Basic Net Income  | \$ .41   | \$ .40   | \$ .37   | \$ .31   |
| Diluted Net Income  | .41      | .40      | .37      | .31      |
| Cash Dividends Paid   | .23      | .23      | .23      | .23      |
| Average Diluted Shares<br>Outstanding (in thousands)            | 18,658   | 18,633   | 18,646   | 18,666   |
| FINANCIAL RATIOS  |          |          |          |          |
| Return on Average Assets  | .98%     | .96%     | .91%     | .76%     |
| Return on Avg. Stockholders' Equity                             | 9.88     | 9.56     | 9.05     | 7.69     |
| Avg. Earning Assets to Avg. Assets                              | 89.98    | 89.64    | 90.05    | 90.19    |
| Allowance for Loan Losses as %<br>Of Total Loans                | 1.05     | 1.08     | 1.14     | 1.08     |
| Net Charge Off's as % Of Avg. Loans                             |          |          |          |          |

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|  |       |       |       |       |
|--|-------|-------|-------|-------|
| (Annualized)                             | .34   | .46   | .07   | .92   |
| Dividend Payout Ratio                    | 56.10 | 57.50 | 62.16 | 74.19 |
| Avg. Stockholders' Equity to Avg. Assets | 9.89  | 10.00 | 10.08 | 9.86  |
| Tax Equivalent Yield on Earning Assets   | 5.79  | 5.65  | 5.71  | 5.62  |
| Cost of Supporting Liabilities           | 1.85  | 1.78  | 1.84  | 1.84  |
| Net Int. Margin (FTE) on Earning Assets  | 3.94  | 3.87  | 3.87  | 3.78  |

Page 10 of 10