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FIRST MERCHANTS CORP
Form 8-K
January 23, 2008

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): January 23, 2008

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

| | | |
|---|--------------------------|--------------------------------------|
| INDIANA | 0-17071 | 35-1544218 |
| (State or other jurisdiction of incorporation) | (Commission file number) | (IRS Employer 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))

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On January 23, 2008, First Merchants Corporation issued a press release to report its financial results for the fourth quarter ended December 31, 2007. A

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copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information in this Current Report on Form 8-K, including Exhibit No. 99.1 hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section. The information in this Current Report shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

- (a) Not applicable.
- (b) Not applicable.
- (c) Exhibits.

Exhibit 99.1 Press Release, dated January 23, 2008, issued by
First Merchants Corporation

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

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

Dated: January 23, 2008

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|--|
| ----- | ----- |
| 99.1 | Press Release, dated January 23, 2008, issued by First Merchants Corporation. |

First Merchants Corporation

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Exhibit No. 99.1

Press Release, dated January 23, 2008

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

January 23, 2008

FOR IMMEDIATE RELEASE

For more information, contact:

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

SOURCE: First Merchants Corporation, Muncie, Indiana

FIRST MERCHANTS CORPORATION ANNOUNCES 21 PERCENT INCREASE IN FOURTH QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported fourth quarter 2007 earnings per share of \$.51, a 21.4% increase over \$.42 earned in the fourth quarter of 2006. Net income for the quarter totaled \$9,310,000 compared to \$7,659,000 in fourth quarter of 2006.

2007 earnings per share totaled \$1.73, a 5.5% increase over the \$1.64 earned in 2006. Included in the year-to-date results are two strategic non-recurring expenses.

The first non-recurring expense is related to the early redemption of the Corporation's subordinated debentures payable to First Merchants Capital Trust I and subsequent redemption by First Merchants Capital Trust I of its outstanding common and preferred fixed rate securities (NASDAQ-FRMEP) as reported on Form 8-K on April 26, 2007. The early redemption of the debentures required the Corporation to accelerate the recognition of the remaining unamortized underwriting fee of approximately \$1.8 million, or \$.06 per share.

Additionally, in a January 24, 2007 press release, the Corporation announced its plan to integrate the data operations of its Columbus, Ohio, bank into the corporate operations center. The company also announced its plan to re-brand four bank charters into First Merchants Bank, NA. The successful completion of these actions cost \$1.1 million during 2007.

The combination of these non-recurring expenses totaled \$2.9 million, or \$.10 per share. Excluding these non-recurring expenses, earnings per share improved by \$.19, or 11.6 percent over 2006.

Total assets equaled \$3.78 billion at year-end, an increase of \$227 million, or 6.4 percent, over December 31, 2006. Loans and investments, the Corporation's primary earning assets, totaled \$3.33 billion, an increase of \$169 million, or 5.3 percent, over the same period last year.

Year-to-date net interest margin totaled 3.55 percent, a 16 basis point decline from the prior year total of 3.71 percent. The decline is meaningful, however, the Corporation's net interest margin did increase in the fourth quarter of 2007 as the Federal Reserve lowered its benchmark fed funds rate by 1 percent.

Total other income increased by \$5.9 million, or 17.2 percent. All reported line items produced increases ranging from a low of 9.8 percent to a high of 59.7 percent reflecting the Corporation's focus on fee for service business.

Total other expenses increased by \$6.1 million, or 6.4 percent, absent the non-recurring expenses totaling \$2.9 million, non-interest expense increased by

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\$3.2 million, or 3.4 percent.

The provision for loan losses increased by \$2.2 million to \$8.5 million, or 30 basis points based on the Corporation's continued evaluation of the adequacy of the allowance for loan losses. The increased provision in 2007 is reflective of net-charge off's totaling \$6.8 million, or 24 basis points, and increased non-performing assets of \$11.6 million. The reserve for loan losses increased by \$1.7 million in 2007 to \$28.2 million and the allowance for loan losses as a percentage of total loans outstanding remained at .98 percent.

Michael C. Rechin, President and Chief Executive Officer, stated that, "The tactical execution of our strategic plan during 2007 is reflective of the commitment our employees have to First Merchants Corporation. Given the distractions of a volatile market and a slowing economy, we believe that our employees have remained focused on meeting our customers' needs and providing great service as evidenced by our loan growth and our non-interest income growth." Rechin also added, "2007 was a turbulent year in the banking sector and this management team is pleased with the momentum our company continues to build. We are committed to our culture statement whereby we expect superior results from our company and ourselves. We are very aware of the economic and credit environment that our industry faces in 2008, but are confident in our ability to show continued progress."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Standard Time on Wednesday, January 23, 2008. To participate, dial (Toll Free) 800-860-2442 and reference First Merchants Corporation's fourth quarter earnings. A replay will be available until January 31, 2008. To access replay, US/Canada participants should dial (Toll Free) 877-344-7529 or for International participants, dial 412-317-0088. The replay passcode is 414887#.

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.

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, N.A., First Merchants Bank of Central Indiana, N.A., Lafayette Bank & Trust Company, N.A., Commerce National Bank and First Merchants Trust Company, N.A. The Corporation also operates First Merchants Insurance Services, a full-service property casualty, personal lines, and healthcare insurance agency 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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CONSOLIDATED BALANCE SHEETS

| (in thousands) | December 31, | |
|--|--------------|--------------|
| | 2007 | 2006 |
| Assets | | |
| Cash and due from banks | \$ 134,683 | \$ 89,957 |
| Interest-bearing time deposits | 24,931 | 11,284 |
| Investment securities | 451,167 | 465,217 |
| Mortgage loans held for sale | 3,735 | 5,413 |
| Loans | 2,876,843 | 2,692,601 |
| Less: Allowance for loan losses | (28,228) | (26,540) |
| | ----- | ----- |
| Net loans | 2,848,615 | 2,666,061 |
| Premises and equipment | 44,445 | 42,393 |
| Federal Reserve and Federal Home Loan Bank stock | 25,250 | 23,691 |
| Interest receivable | 23,402 | 24,345 |
| Core deposit intangibles and goodwill | 135,856 | 138,638 |
| Cash surrender value of life insurance | 70,970 | 64,213 |
| Other assets | 19,033 | 23,658 |
| | ----- | ----- |
| Total assets | \$ 3,782,087 | \$ 3,554,870 |
| | ===== | ===== |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | \$ 370,397 | \$ 362,058 |
| Interest-bearing | 2,473,724 | 2,388,480 |
| | ----- | ----- |
| Total deposits | 2,844,121 | 2,750,538 |
| Borrowings | 568,774 | 440,764 |
| Interest payable | 8,325 | 9,326 |
| Other liabilities | 20,931 | 26,917 |
| | ----- | ----- |
| Total liabilities | 3,442,151 | 3,227,545 |
| 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 -- 18,002,787 and 18,439,843 shares | | |
| | 2,250 | 2,305 |
| Additional paid-in capital | 137,801 | 146,460 |
| Retained earnings | 202,750 | 187,965 |
| Accumulated other comprehensive loss | (2,865) | (9,405) |
| | ----- | ----- |
| Total stockholders' equity | 339,936 | 327,325 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 3,782,087 | \$ 3,554,870 |
| | ===== | ===== |

FINANCIAL HIGHLIGHTS

| | | |
|----------------|------------------------------------|----------------------------|
| (In thousands) | Three Months Ended December 31, | Year Ended December 31, |
|----------------|------------------------------------|----------------------------|

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| | 2007 | 2006 | 2007 | 2006 |
|---|-------------|-------------|-------------|-------------|
| NET CHARGE OFF'S | \$ 1,857 | \$ 1,680 | \$ 6,819 | \$ 4,906 |
| AVERAGE BALANCES | | | | |
| Total Assets | \$3,735,931 | \$3,499,774 | \$3,639,772 | \$3,371,386 |
| Total Loans | 2,873,989 | 2,653,700 | 2,794,824 | 2,569,847 |
| Total Deposits | 2,812,760 | 2,755,145 | 2,752,443 | 2,568,070 |
| Total Stockholders' Equity | 335,649 | 326,158 | 330,786 | 319,519 |
| FINANCIAL RATIOS | | | | |
| Return on Average Assets | 1.00% | .88% | .87% | .90% |
| Return on Avg. Stockholders' Equity | 11.10 | 9.39 | 9.56 | 9.45 |
| Avg. Earning Assets to Avg. Assets | 90.70 | 90.87 | 90.91 | 91.15 |
| Allowance for Loan Losses as % Of Total Loans | .98 | .99 | .98 | .99 |
| Net Charge Off's as % Of Avg. Loans (Annualized) | .26 | .25 | .24 | .19 |
| Dividend Payout Ratio | 45.10 | 56.10 | 53.18 | 56.10 |
| Avg. Stockholders' Equity to Avg. Assets | 8.98 | 9.32 | 9.09 | 9.48 |
| Tax Equivalent Yield on Earning Assets | 7.13 | 7.07 | 7.10 | 6.92 |
| Cost of Supporting Liabilities | 3.47 | 3.53 | 3.55 | 3.21 |
| Net Int. Margin (FTE) on Earning Assets | 3.66 | 3.54 | 3.55 | 3.71 |

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|------------------------------------|-----------|----------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Interest income | | | | |
| Loans receivable | | | | |
| Taxable | \$ 53,338 | \$ 49,293 | \$207,268 | \$186,000 |
| Tax exempt | 302 | 240 | 1,120 | 1,120 |
| Investment securities | | | | |
| Taxable | 3,487 | 3,219 | 13,744 | 12,744 |
| Tax exempt | 1,623 | 1,660 | 6,548 | 6,548 |
| Federal funds sold | 39 | 332 | 172 | 172 |
| Deposits with financial institutions | 194 | 110 | 582 | 582 |
| Federal Reserve and Federal Home Loan Bank stock | 344 | 318 | 1,299 | 1,299 |
| | ----- | ----- | ----- | ----- |
| Total interest income | 59,327 | 55,172 | 230,733 | 208,000 |
| | ----- | ----- | ----- | ----- |
| Interest expense | | | | |
| Deposits | 22,398 | 22,690 | 89,921 | 74,000 |
| Federal funds purchased | 692 | 93 | 3,589 | 1,000 |
| Securities sold under repurchase agreements | 1,182 | 488 | 3,856 | 3,000 |
| Federal Home Loan Bank advances | 3,250 | 2,672 | 12,497 | 10,000 |
| Subordinated debentures, revolving credit lines and term loans | 1,910 | 2,046 | 7,750 | 8,000 |
| Other borrowings | - | 67 | - | - |
| | ----- | ----- | ----- | ----- |
| Total interest expense | 29,432 | 28,056 | 117,613 | 98,000 |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|--|----------|----------|-----------|--------|
| Net interest income | 29,895 | 27,116 | 113,120 | 110, |
| Provision for loan losses | 2,450 | 1,245 | 8,507 | 6, |
| | ----- | ----- | ----- | ----- |
| Net interest income after provision for loan losses | 27,445 | 25,871 | 104,613 | 103, |
| | ----- | ----- | ----- | ----- |
| Other income | | | | |
| Fiduciary activities | 2,094 | 1,862 | 8,372 | 7, |
| Service charges on deposit accounts | 3,206 | 3,010 | 12,421 | 11, |
| Other customer fees | 1,686 | 1,387 | 6,479 | 5, |
| Net realized gains (losses) on sales of available-for-sale securities | 1 | (4) | - | |
| Commission income | 1,031 | 881 | 5,113 | 4, |
| Earnings on cash surrender value of life insurance | 1,186 | 712 | 3,651 | 2, |
| Net gains and fees on sales of loans | 546 | 613 | 2,438 | 2, |
| Other income | 383 | 309 | 2,077 | 1, |
| | ----- | ----- | ----- | ----- |
| Total other income | 10,133 | 8,770 | 40,551 | 34, |
| | ----- | ----- | ----- | ----- |
| Other expenses | | | | |
| Salaries and employee benefits | 14,738 | 14,157 | 58,843 | 56, |
| Net occupancy expenses | 1,619 | 1,498 | 6,647 | 5, |
| Equipment expenses | 1,619 | 1,956 | 6,769 | 7, |
| Marketing expense | 505 | 508 | 2,205 | 1, |
| Outside data processing fees | 872 | 804 | 3,831 | 3, |
| Printing and office supplies | 329 | 401 | 1,410 | 1, |
| Core deposit amortization | 789 | 781 | 3,159 | 3, |
| Write-off of unamortized underwriting expense | - | - | 1,771 | |
| Other expenses | 4,776 | 4,315 | 17,547 | 16, |
| | ----- | ----- | ----- | ----- |
| Total other expenses | 25,247 | 24,420 | 102,182 | 96, |
| | ----- | ----- | ----- | ----- |
| Income before income tax | 12,331 | 10,221 | 42,982 | 42, |
| Income tax expense | 3,021 | 2,562 | 11,343 | 12, |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 9,310 | \$ 7,659 | \$ 31,639 | \$ 30, |
| | ===== | ===== | ===== | ===== |
| Per Share Data | | | | |
| Basic Net Income | .51 | .42 | 1.73 | 1 |
| Diluted Net Income | .51 | .42 | 1.73 | 1 |
| Cash Dividends Paid | .23 | .23 | .92 | |
| Average Diluted Shares Outstanding (in thousands) | 18,144 | 18,498 | 18,307 | 18, |

CONSOLIDATED BALANCE SHEETS

(in thousands)

December 31, September 30, June 30, March

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| | 2007 | 2007 | 2007 | 2007 |
|---|---------------------|---------------------|---------------------|---------------------|
| Assets | | | | |
| Cash and due from banks | \$ 134,683 | \$ 85,645 | \$ 80,921 | \$ 43,616 |
| Interest-bearing time deposits | 24,931 | 22,295 | 8,898 | 6,176 |
| Investment securities | 451,167 | 474,613 | 479,281 | 476,176 |
| Mortgage loans held for sale | 3,735 | 4,328 | 2,842 | 2,842 |
| Loans | 2,876,843 | 2,869,001 | 2,806,068 | 2,731,176 |
| Less: Allowance for loan losses | (28,228) | (27,635) | (27,608) | (26,842) |
| Net loans | 2,848,615 | 2,841,366 | 2,778,460 | 2,704,334 |
| Premises and equipment | 44,445 | 44,255 | 44,126 | 43,842 |
| Federal Reserve and Federal Home Loan Bank stock | 25,250 | 25,050 | 23,822 | 23,842 |
| Interest receivable | 23,402 | 25,954 | 21,615 | 21,615 |
| Core deposit intangibles and goodwill | 135,856 | 136,266 | 137,056 | 137,056 |
| Cash surrender value of life insurance | 70,970 | 70,082 | 69,111 | 68,842 |
| Other assets | 19,033 | 24,446 | 23,383 | 26,842 |
| Total assets | \$ 3,782,087 | \$ 3,754,300 | \$ 3,669,515 | \$ 3,554,334 |
| Liabilities | | | | |
| Deposits | | | | |
| Noninterest-bearing | \$ 370,397 | \$ 355,339 | \$ 362,083 | \$ 325,842 |
| Interest-bearing | 2,473,724 | 2,403,836 | 2,357,518 | 2,361,176 |
| Total deposits | 2,844,121 | 2,759,175 | 2,719,601 | 2,687,018 |
| Borrowings | 568,774 | 620,469 | 587,574 | 497,176 |
| Interest payable | 8,325 | 9,170 | 10,417 | 10,417 |
| Other liabilities | 20,931 | 32,745 | 24,543 | 30,842 |
| Total liabilities | 3,442,151 | 3,421,559 | 3,342,135 | 3,226,334 |
| 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 | 2,250 | 2,269 | 2,286 | 2,286 |
| Additional paid-in capital | 137,801 | 140,642 | 143,317 | 143,317 |
| Retained earnings | 202,750 | 197,609 | 193,460 | 191,176 |
| Accumulated other comprehensive loss | (2,865) | (7,779) | (11,683) | (8,842) |
| Total stockholders' equity | 339,936 | 332,741 | 327,380 | 328,000 |
| Total liabilities and stockholders' equity | \$ 3,782,087 | \$ 3,754,300 | \$ 3,669,515 | \$ 3,554,334 |

NON PERFORMING ASSETS

| (in thousands) | December 31, 2007 | September 30, 2007 | June 30, 2007 | March 31, 2007 |
|-----------------------------------|----------------------|-----------------------|------------------|-------------------|
| Non Accrual Loans | \$ 29,031 | \$ 30,165 | \$30,820 | \$ 22,704 |
| Renegotiated Loans | 145 | 58 | 58 | 59 |
| Non Performing Loans (NPL) | 29,176 | 30,223 | 30,878 | 22,763 |

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| | | | | |
|--|--------|--------|--------|--------|
| Real Estate Owned and Repossessed Assets | 2,573 | 2,081 | 2,274 | 3,102 |
| Non Performing Assets (NPA) | 31,749 | 32,304 | 33,152 | 25,865 |
| 90+ Days Delinquent | 3,578 | 3,132 | 5,203 | 4,554 |
| NPAs & 90 Day Delinquent | 35,327 | 35,436 | 38,355 | 30,419 |
| Loan Loss Reserve | 28,228 | 27,635 | 27,608 | 26,819 |
| YTD Charge-offs | 6,819 | 4,962 | 2,179 | 1,320 |
| NPAs / Actual Assets % | 0.84% | 0.86% | 0.90% | 0.73% |
| NPAs & 90 day / Actual Assets % | 0.93% | 0.94% | 1.05% | 0.86% |
| NPAs / Actual Loans & REO (%) | 1.10% | 1.12% | 1.18% | 0.95% |
| Loan Loss Reserves / Actual Loans (%) | 0.98% | 0.96% | 0.98% | 0.98% |
| NCOs / YTD Average Loans (%) | 0.24% | 0.18% | 0.08% | 0.05% |

CONSOLIDATED STATEMENTS OF INCOME

| (in thousands, except share data) | December 31, 2007 | September 30, 2007 | Three Months Ended June 30, 2007 | March 31, 2007 |
|--|-------------------|--------------------|----------------------------------|----------------|
| Interest Income | | | | |
| Loans receivable | | | | |
| Taxable | \$ 53,338 | \$ 53,081 | \$ 51,204 | \$ 49,111 |
| Tax exempt | 302 | 368 | 249 | 1,111 |
| Investment securities | | | | |
| Taxable | 3,487 | 3,581 | 3,394 | 3,394 |
| Tax exempt | 1,623 | 1,613 | 1,651 | 1,651 |
| Federal funds sold | 39 | 41 | 91 | 91 |
| Deposits with financial institutions | 194 | 145 | 120 | 120 |
| Federal Reserve and Federal Home Loan Bank stock | 344 | 328 | 299 | 299 |
| Total interest income | 59,327 | 59,157 | 57,008 | 55,076 |
| Interest expense | | | | |
| Deposits | 22,398 | 23,327 | 22,390 | 21,390 |
| Federal funds purchased | 692 | 996 | 1,047 | 1,047 |
| Securities sold under repurchase agreements | 1,182 | 1,195 | 910 | 910 |
| Federal Home Loan Bank advances | 3,250 | 3,302 | 3,009 | 2,999 |
| Subordinated debentures, revolving credit lines and term loans | 1,910 | 1,802 | 2,037 | 2,037 |
| Other borrowings | - | - | - | - |
| Total interest expense | 29,432 | 30,622 | 29,393 | 28,383 |
| Net interest income | 29,895 | 28,535 | 27,615 | 26,693 |
| Provision for loan losses | 2,450 | 2,810 | 1,648 | 1,648 |
| Net interest income after provision for loan losses | 27,445 | 25,725 | 25,967 | 25,045 |
| Other income | | | | |
| Fiduciary activities | 2,094 | 1,985 | 2,257 | 2,257 |
| Service charges on deposit accounts | 3,206 | 3,241 | 3,091 | 3,091 |
| Other customer fees | 1,686 | 1,767 | 1,535 | 1,535 |
| Net realized gains (losses) on sales of | | | | |

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| | | | | |
|---|----------|----------|----------|-------|
| available-for-sale securities | 1 | - | - | |
| Commission income | 1,031 | 1,175 | 1,269 | 1 |
| Earnings on cash surrender value of life insurance | 1,186 | 998 | 782 | |
| Net gains and fees on sales of loans | 546 | 749 | 611 | |
| Other income | 383 | 933 | 221 | |
| | ----- | ----- | ----- | ----- |
| Total other income | 10,133 | 10,848 | 9,766 | 9 |
| | ----- | ----- | ----- | ----- |
| Other expenses | | | | |
| Salaries and employee benefits | 14,738 | 14,583 | 14,796 | 14 |
| Net occupancy expenses | 1,619 | 1,818 | 1,612 | 1 |
| Equipment expenses | 1,619 | 1,645 | 1,783 | 1 |
| Marketing expense | 505 | 560 | 653 | |
| Outside data processing fees | 872 | 972 | 1,036 | |
| Printing and office supplies | 329 | 394 | 388 | |
| Core deposit amortization | 789 | 789 | 790 | |
| Write-off of unamortized underwriting expense | - | - | 1,771 | |
| Other expenses | 4,776 | 4,241 | 4,910 | 3 |
| | ----- | ----- | ----- | ----- |
| Total other expenses | 25,247 | 25,002 | 27,739 | 24 |
| | ----- | ----- | ----- | ----- |
| Income before income tax | 12,331 | 11,571 | 7,994 | 11 |
| Income tax expense | 3,021 | 3,221 | 1,786 | 3 |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 9,310 | \$ 8,350 | \$ 6,208 | \$ 7 |
| | ===== | ===== | ===== | ===== |
| Per Share Data | | | | |
| Basic Net Income | \$.51 | \$.46 | \$.34 | \$ |
| Diluted Net Income | .51 | .46 | .34 | |
| Cash Dividends Paid | .23 | .23 | .23 | |
| Average Diluted Shares Outstanding (in thousands) | 18,144 | 18,276 | 18,369 | 18 |
| FINANCIAL RATIOS | | | | |
| Return on Average Assets | 1.00% | .90% | .69% | |
| Return on Avg. Stockholders' Equity | 11.10 | 10.14 | 7.53 | |
| Avg. Earning Assets to Avg. Assets | 90.70 | 90.88 | 90.96 | 9 |
| Allowance for Loan Losses as % Of Total Loans | .98 | .96 | .98 | |
| Net Charge Off's as % Of Avg. Loans (Annualized) | .26 | .39 | .23 | |
| Dividend Payout Ratio | 45.10 | 50.00 | 67.65 | 5 |
| Avg. Stockholders' Equity to Avg. Assets | 8.98 | 8.91 | 9.15 | |
| Tax Equivalent Yield on Earning Assets | 7.13 | 7.17 | 7.09 | |
| Cost of Supporting Liabilities | 3.47 | 3.65 | 3.59 | |
| Net Int. Margin (FTE) on Earning Assets | 3.66 | 3.52 | 3.50 | |

LOANS

| (in thousands) | December 31, 2007 | September 30, 2007 | June 30, 2007 | M |
|---|----------------------|-----------------------|------------------|----|
| Commercial and industrial loans | \$ 662,701 | \$ 626,301 | \$ 590,345 | \$ |
| Agricultural production financing and other loans to farmers | 114,324 | 113,132 | 103,713 | |

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| | | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Real estate loans: | | | | |
| Construction | 165,425 | 160,624 | 172,247 | |
| Commercial and farmland | 947,234 | 912,063 | 895,301 | |
| Residential | 744,627 | 769,890 | 768,392 | |
| Individuals' loans for household and other personal expenditures | 187,880 | 194,181 | 206,435 | |
| Tax exempt loans | 16,423 | 28,726 | 23,181 | |
| Lease financing receivables, net of unearned income | 8,351 | 8,932 | 7,906 | |
| Other loans | 29,878 | 55,152 | 38,548 | |
| | ----- | ----- | ----- | ----- |
| Allowance for loan losses | 2,876,843 (28,228) | 2,869,001 (27,635) | 2,806,068 (27,608) | 2,806,068 (27,608) |
| | ----- | ----- | ----- | ----- |
| Total loans | <u>\$2,848,615</u> | <u>\$2,841,366</u> | <u>\$2,778,460</u> | <u>\$2,778,460</u> |

DEPOSITS

| | | | | |
|--|----------------------|-----------------------|---------------------|--------------------|
| (in thousands) | December 31, 2007 | September 30, 2007 | June 30, 2007 | Ma |
| Demand deposits | \$ 903,380 | \$ 825,185 | \$ 855,458 | \$ |
| Savings deposits | 552,379 | 508,139 | 494,738 | |
| Certificates and other time deposits of \$100,000 or more | 470,733 | 472,842 | 443,355 | |
| Other certificates and time deposits | 917,629 | 953,009 | 926,050 | |
| | ----- | ----- | ----- | ----- |
| Total deposits | <u>\$2,844,121</u> | <u>\$2,759,175</u> | <u>\$ 2,719,601</u> | <u>\$2,719,601</u> |