

FIRST MERCHANTS CORP
Form 8-K
February 01, 2010

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): February 1, 2010

Commission File Number 0-17071

FIRST MERCHANTS CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA

35-1544218

(State or other jurisdiction of incorporation) (IRS Employer Identification No.)

200 East Jackson Street

P.O. Box 792

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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 February 1, 2010 First Merchants Corporation issued a press release to report its financial results for the fourth quarter ended December 31, 2009. A 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 February 1, 2010, 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: February 1, 2010

EXHIBIT INDEX

Exhibit No.

99.1

Description

Press Release, dated February 1, 2010, issued by First Merchants Corporation

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

February 1, 2010

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 4th QUARTER 2009 EARNINGS AND 1st QUARTER 2010 DIVIDENDS

First Merchants Corporation (NASDAQ – FRME) has reported a fourth quarter 2009 net loss of \$11.7 million, or \$.55 per fully diluted common share. The Corporation’s fourth quarter loss contributed to an annual fully diluted common share loss of \$2.17, down from the prior year income of \$1.14.

Michael C. Rechin, President and Chief Executive Officer, stated that, “2009 proved to be a challenge and a disappointment by many measures including net income, EPS and our stock price. The earnings shortfall is nearly 100 percent the result of credit costs including provision, OREO and legal expense totaling \$135 million. The magnitude of the provisioning was a function of charge-offs and the building of our loan loss reserve given the protracted recessionary environment. The net affect of the 2009 experience produced positive strides in process, underwriting and policy.

“Our core business remains very healthy, and we are satisfied with many aspects of our operations. Our deposit mix improved materially through the year driving our net-interest margin higher for each of the last three quarters. We grew demand deposits and savings balances by 10% over year-end 2008 and 7% over September 30, 2009. The liquidity we built allowed for brokered deposits and non-customer borrowings to be reduced in excess of \$370 million, contributing to our net-interest margin strength. Our efficiency also improved through the year having successfully integrated the acquisition of Lincoln Bancorp and combining four bank charters into First Merchants Bank.”

The loss for the quarter was primarily due to provision for loan losses of \$26 million with net charge-offs of \$21 million. The Corporation’s allowance for loan losses increased to \$92 million, or 2.81 percent of total loans as of year-end from 1.33 percent, as of December 31, 2008, a \$43 million increase. The Corporation’s coverage ratio of allowance to non-accrual loans improved to 78 percent, the highest level in five quarters.

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Non-performing assets (NPA) plus 90 days delinquent loans declined for the first time in eight quarters totaling \$146 million, or 3.26 percent of total assets. The six percent decline in overall NPAs included a reduction in non-accrual loans despite the addition of two large credit relationships totaling \$28 million.

Net-Interest margin remained strong up three basis points (bps) linked quarter-over-quarter to 3.86 percent as net interest income totaled nearly \$38 million, reflecting the strength of ongoing operations. Interest reversals on non-accrual loans totaled \$2.9 million for the year and \$592,000 for the quarter depressing net-interest margin by six bps for both periods.

Total non-interest income totaled \$10.6 million for the quarter, after adjusting for gains from the sale of securities totaling \$2.0 million and other-than-temporary impairment (OTTI) charges of \$3.0 million. The expected decline linked quarter-over-quarter is consistent with prior years as mortgage banking fees and insurance commissions are seasonal. For the year, non-interest income, excluding bond gains and losses and a one time mortgage portfolio sale gain, totaled \$46.5 million.

Total non-interest expense, for the fourth quarter, increased by \$662,000 as salary and benefits expense increased by \$735,000 quarter-over-quarter. The increase in salary and benefits expense is the result of two items including \$407,000 of severance expense in the fourth quarter and a \$500,000 bonus accrual reversal in the third quarter. When normalized, the Corporation's salary and benefit costs are actually down another \$172,000. The positive impact of the severance expense will be reflected in first quarter 2010 operating results.

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The Corporation's pre-tax, pre-provision earnings totaled \$7.5 million for the quarter and \$53 million for the full year. When normalized for a fully taxable equivalent net interest income and extraordinary items, the pre-tax, pre-provision earnings totaled \$15.7 million for the quarter and \$70.9 million for the full year. Extraordinary items include bond gains, OTTI expense, ORE write-downs, professional services related to credit losses and FHLB prepayment penalties.

For the year 2009, the Corporation experienced a combination of extraordinary expenses associated with credit-related OREO write-downs of \$9.8 million, professional services related to credit losses totaling \$3.0 million, FDIC special assessment fees of \$2.2 million and \$1.9 million of prepayment penalties related to FHLB advances. When adjusted for the extraordinary levels of these expenses the Corporation's operating costs totaled \$134.7 million.

As of December 31, 2009, the Corporation's total risk-based capital measured 13.04 percent, Tier 1 risk-based capital totaled 10.32 percent, Tier 1 leverage ratio totaled 8.20 percent, and tangible common equity ratio totaled 4.54 percent. All regulatory capital ratios exceed the regulatory definitions of "well capitalized".

The Corporation's management and Board of Directors believe that retaining capital to protect and strengthen the Corporation is one of its highest priorities. As a result, the board of directors, on January 29, 2010, declared a reduced cash dividend of \$.01 payable on March 19, 2010, to shareholders of record as of March 5, 2010.

Rechin continued, "We are pleased to have started a new year and there is evidence of a return towards profitability based on our NPA, impaired asset levels and delinquency trends. Our non-performing asset reduction in the fourth quarter and the slowing of migration in delinquency suggests a peak in provisioning. Our feeling is that absent a reversal in the current recovery, we are nearing the end of our reserve building. We look forward to fully maximizing our pre-tax pre-provision earnings run rate of nearly \$70 million in the future as the expense of loan losses begins to slow."

CONFERENCE CALL

First Merchants Corporation will conduct a fourth quarter earnings conference call and web cast at 2:30 p.m. (ET) on Monday, February 1, 2010.

To participate, dial (Toll Free) 800-860-2442 and reference First Merchants Corporation's fourth quarter earnings release. International callers please call +1 412-858-4600. A replay of the call will be available until February 9, 2010 at 9:00 a.m. (ET). To access a replay of the call, US/Canada participants should dial (Toll Free) 877-344-7529 or for International participants, dial +1 412-317-0088. The replay passcode is 436868.

In order to view the web cast and presentation slides, please go to <http://www.talkpoint.com/viewer/starthere.asp?Pres=129270> during the time of the call.

During the call, Forward-Looking Statements about the relative business outlook may be made. 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:

About First Merchants Corporation

First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana. The Corporation is comprised of First Merchants Bank, N.A., which also operates as Lafayette Bank & Trust, A Division of First Merchants Bank, N.A., Commerce National Bank, A Division of First Merchants Bank, N.A., as well as First Merchants Trust Company, N.A., and First Merchants Insurance Services, a full-service property casualty, personal lines, and healthcare 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>).

* * * *

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

| | December 31, | |
|---|---------------------|---------------------|
| | 2009 | 2008 |
| ASSETS | | |
| Cash and due from banks | \$ 76,801 | \$ 84,249 |
| Federal funds sold | 102,346 | 66,237 |
| Cash and cash equivalents | 179,147 | 150,486 |
| Interest-bearing time deposits | 74,025 | 38,823 |
| Investment securities | 563,117 | 481,984 |
| Mortgage loans held for sale | 8,036 | 4,295 |
| Loans | 3,269,788 | 3,721,952 |
| Less: Allowance for loan losses | (92,131) | (49,543) |
| Net loans | 3,177,657 | 3,672,409 |
| Premises and equipment | 55,804 | 59,641 |
| Federal Reserve and Federal Home Loan Bank stock | 38,576 | 34,319 |
| Interest receivable | 20,818 | 23,976 |
| Core deposit intangibles and goodwill | 158,740 | 165,974 |
| Cash surrender value of life insurance | 94,636 | 93,222 |
| Other real estate owned | 14,879 | 18,458 |
| Tax asset, deferred and receivable | 64,394 | 26,738 |
| Other assets | 31,123 | 13,830 |
| TOTAL ASSETS | \$ 4,480,952 | \$ 4,784,155 |
| LIABILITIES | | |
| Deposits: | | |
| Noninterest-bearing | \$ 516,487 | \$ 460,519 |
| Interest-bearing | 3,020,049 | 3,258,292 |
| Total Deposits | 3,536,536 | 3,718,811 |
| Borrowings: | | |
| Securities sold under repurchase agreements | 125,687 | 122,311 |
| Federal Home Loan Bank advances | 129,749 | 360,217 |
| Subordinated debentures, revolving credit lines and term loans | 194,790 | 135,826 |
| Total Borrowings | 450,226 | 618,354 |
| Interest payable | 5,711 | 8,844 |
| Other liabilities | 24,694 | 42,243 |
| Total Liabilities | 4,017,167 | 4,388,252 |
| STOCKHOLDERS' EQUITY | | |
| Preferred Stock, no-par value: | | |
| Authorized -- 500,000 shares | | |
| Series A, Issued and outstanding - 116,000 shares | 112,373 | |
| Cumulative Preferred Stock, \$1,000 par value, \$1,000 liquidation value: | | |
| Authorized -- 600 shares | | |
| Issued and outstanding - 125 shares | 125 | 125 |
| Common Stock, \$.125 stated value: | | |
| Authorized -- 50,000,000 shares | | |
| Issued and outstanding - 21,227,741 and 21,178,123 shares | 2,653 | 2,647 |
| Additional paid-in capital | 206,600 | 202,299 |
| Retained earnings | 150,860 | 206,496 |

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| | | | | |
|---|--------------|---|--------------|---|
| Accumulated other comprehensive loss | (8,826 |) | (15,664 |) |
| Total Stockholders' Equity | 463,785 | | 395,903 | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 4,480,952 | | \$ 4,784,155 | |

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|--|---------------|---|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| INTEREST INCOME | | | | |
| Loans receivable: | | | | |
| Taxable | \$ 48,297 | \$ 48,433 | \$ 205,616 | \$ 198,385 |
| Tax exempt | 296 | 349 | 1,038 | 1,013 |
| Investment securities: | | | | |
| Taxable | 2,348 | 2,907 | 12,335 | 12,046 |
| Tax exempt | 2,668 | 1,511 | 9,587 | 5,855 |
| Federal funds sold | 37 | 7 | 118 | 28 |
| Deposits with financial institutions | 75 | 194 | 366 | 755 |
| Federal Reserve and Federal Home Loan Bank stock | 348 | 335 | 1,379 | 1,391 |
| Total Interest Income | 54,069 | 53,736 | 230,439 | 219,473 |
| INTEREST EXPENSE | | | | |
| Deposits | 12,445 | 15,638 | 58,391 | 67,581 |
| Federal funds purchased | | 108 | 28 | 1,856 |
| Securities sold under repurchase agreements | 511 | 502 | 1,997 | 2,600 |
| Federal Home Loan Bank advances | 1,627 | 2,583 | 9,232 | 11,168 |
| Subordinated debentures, revolving credit lines and term loans | 1,921 | 1,757 | 7,445 | 6,884 |
| Total Interest Expense | 16,504 | 20,588 | 77,093 | 90,089 |
| NET INTEREST INCOME | 37,565 | 33,148 | 153,346 | 129,384 |
| Provision for loan losses | 26,020 | 10,251 | 122,176 | 28,238 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 11,545 | 22,897 | 31,170 | 101,146 |
| OTHER INCOME | | | | |
| Service charges on deposit accounts | 3,735 | 3,346 | 15,128 | 13,002 |
| Fiduciary activities | 1,826 | 1,831 | 7,409 | 8,031 |
| Other customer fees | 1,969 | 1,634 | 7,922 | 6,776 |
| Commission income | 1,181 | 1,271 | 6,397 | 5,824 |
| Earnings on cash surrender value of life insurance | 569 | (2,130) | 1,614 | (267) |
| Net gains and fees on sales of loans | 1,744 | 531 | 6,849 | 2,490 |
| Net realized and unrealized gains on sales of available for sale securities | 1,984 | 328 | 11,141 | 599 |
| Other-than-temporary impairment on available for sale securities | (2,979) | (1,242) | (6,729) | (2,682) |
| Other income | (472) | 717 | 1,470 | 2,594 |
| Total Other Income | 9,557 | 6,286 | 51,201 | 36,367 |
| OTHER EXPENSES | | | | |
| Salaries and employee benefits | 18,680 | 15,880 | 76,325 | 63,006 |
| Net occupancy | 2,816 | 2,299 | 10,250 | 7,711 |
| Equipment | 1,935 | 1,713 | 7,595 | 6,659 |
| Marketing | 513 | 610 | 2,134 | 2,311 |
| Outside data processing fees | 1,488 | 1,128 | 6,186 | 4,087 |
| Printing and office supplies | 359 | 361 | 1,419 | 1,214 |
| Core deposit amortization | 1,277 | 809 | 5,109 | 3,216 |
| FDIC assessments | 3,203 | 530 | 10,394 | 857 |
| Other expenses | 9,386 | 5,670 | 32,146 | 19,731 |
| Total Other Expenses | 39,657 | 29,000 | 151,558 | 108,792 |

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| | | | | |
|--|------------|-----------|------------|-------------|
| INCOME (LOSS) BEFORE INCOME TAX | (18,555 |) 183 | (69,187 |) 28,721 |
| Income tax expense (benefit) | (8,334 |) (38 |) (28,424 |) 8,083 |
| NET INCOME (LOSS) | (10,221 |) 221 | (40,763 |) 20,638 |
| Preferred stock dividends and discount accretion | 1,451 | | 4,979 | |
| NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS | \$ (11,672 |) \$ 221 | \$ (45,742 |) \$ 20,638 |
| Per Share Data: | | | | |
| Basic Net Income (Loss) Available to Common Stockholders | \$ (0.55 |) \$ 0.01 | \$ (2.17 |) \$ 1.14 |
| Diluted Net Income (Loss) Available to Common Stockholders | \$ (0.55 |) \$ 0.01 | \$ (2.17 |) \$ 1.14 |
| Cash Dividends Paid | \$ 0.08 | \$ 0.23 | \$ 0.47 | \$ 0.92 |
| Average Diluted Shares Outstanding (in thousands) | 21,211 | 18,257 | 21,117 | 18,162 |

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FINANCIAL HIGHLIGHTS

(Dollars in thousands)

| | Three Months Ended | | Twelve Months Ended | |
|----------------------------|--------------------|-------------|---------------------|-------------|
| | December 31, | | December 31, | |
| | 2009 | 2008 | 2009 | 2008 |
| NET CHARGE OFF'S | \$20,807 | \$4,372 | \$81,628 | \$15,602 |
| AVERAGE BALANCES: | | | | |
| Total Assets | \$4,503,078 | \$3,870,148 | \$4,674,590 | \$3,811,166 |
| Total Loans | 3,345,086 | 3,082,061 | 3,546,316 | 3,002,628 |
| Total Deposits | 3,544,233 | 3,009,123 | 3,603,509 | 2,902,902 |
| Total Stockholders' Equity | 473,014 | 353,159 | 477,148 | 349,594 |

FINANCIAL RATIOS:

| | | | | | | | | |
|---|--------|----|----------|---|--------|----|-------|---|
| Return on Average Assets | (1.04 |)% | 0.02 | % | (0.98 |)% | 0.54 | % |
| Return on Average Stockholders' Equity | (9.87 |) | 0.25 | | (9.59 |) | 5.90 | |
| Average Earning Assets to Average Assets | 90.28 | | 91.15 | | 90.81 | | 90.88 | |
| Allowance for Loan Losses as % of Total Loans | 2.81 | | 1.33 | | 2.81 | | 1.33 | |
| Net Charge Off's as % of Average Loans (Annualized) | 2.49 | | 0.57 | | 2.30 | | 0.52 | |
| Dividend Payout Ratio | (14.55 |) | 2,300.00 | | (21.66 |) | 80.70 | |
| Average Stockholders' Equity to Average Assets | 10.50 | | 9.13 | | 10.21 | | 9.17 | |
| Tax Equivalent Yield on Earning Assets | 5.48 | | 6.21 | | 5.56 | | 6.44 | |
| Cost of Supporting Liabilities | 1.62 | | 2.33 | | 1.82 | | 2.60 | |
| Net Interest Margin (FTE) on Earning Assets | 3.86 | | 3.88 | | 3.74 | | 3.84 | |

NON-PERFORMING ASSETS

(Dollars in thousands)

| | December 31, | September 30, | June 30, | March 31, | December 31, | |
|--|--------------|---------------|-----------|-----------|--------------|---|
| | 2009 | 2009 | 2009 | 2009 | 2008 | |
| Non-Accrual Loans | \$118,409 | \$123,290 | \$112,220 | \$108,546 | \$87,546 | |
| Renegotiated Loans | 8,833 | 5,595 | 4,216 | | 130 | |
| Non-Performing Loans (NPL) | 127,242 | 128,885 | 116,436 | 108,546 | 87,676 | |
| Real Estate Owned and Repossessed Assets | 14,879 | 21,778 | 20,227 | 22,077 | 18,458 | |
| Non-Performing Assets (NPA) | 142,121 | 150,663 | 136,663 | 130,623 | 106,134 | |
| 90+ Days Delinquent | 3,967 | 5,422 | 3,596 | 7,732 | 5,982 | |
| NPAS & 90 Day Delinquent | \$146,088 | \$156,085 | \$140,259 | \$138,355 | \$112,116 | |
| Loan Loss Reserve | \$92,131 | \$86,918 | \$77,119 | \$58,502 | \$49,543 | |
| YTD Charge-offs | 81,628 | 60,821 | 46,380 | 6,002 | 15,602 | |
| NPAs / Actual Assets % | 3.17 | % 3.37 | % 2.90 | % 2.67 | % 2.22 | % |
| NPAs & 90 Day / Actual Assets % | 3.26 | % 3.49 | % 2.97 | % 2.83 | % 2.34 | % |
| NPAs / Actual Loans and REO % | 4.32 | % 4.37 | % 3.80 | % 3.54 | % 2.83 | % |
| Loan Loss Reserves / Actual Loans (%) | 2.81 | % 2.54 | % 2.16 | % 1.60 | % 1.33 | % |
| NCOs / YTD Average Loans (%) | 2.30 | % 1.68 | % 1.27 | % 0.16 | % 0.52 | % |

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CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

| | December 31, 2009 | September 30, 2009 | June 30, 2009 | March 31, 2009 | December 31, 2008 |
|---|----------------------|-----------------------|---------------------|---------------------|----------------------|
| ASSETS | | | | | |
| Cash and due from banks | \$ 76,801 | \$ 66,887 | \$ 73,668 | \$ 96,606 | \$ 84,249 |
| Federal funds sold | 102,346 | 52,828 | | 89,282 | 66,237 |
| Cash and cash equivalents | 179,147 | 119,715 | 73,668 | 185,888 | 150,486 |
| Interest-bearing time deposits | 74,025 | 44,312 | 44,595 | 158,295 | 38,823 |
| Investment securities | 563,117 | 489,010 | 630,958 | 446,316 | 481,984 |
| Mortgage loans held for sale | 8,036 | 25,173 | 23,070 | 8,659 | 4,295 |
| Loans | 3,269,788 | 3,398,722 | 3,554,229 | 3,654,074 | 3,721,952 |
| Less: Allowance for loan losses | (92,131) | (86,918) | (77,119) | (58,502) | (49,543) |
| Net loans | 3,177,657 | 3,311,804 | 3,477,110 | 3,595,572 | 3,672,409 |
| Premises and equipment | 55,804 | 58,482 | 58,692 | 58,948 | 59,641 |
| Federal Reserve and Federal Home Loan Bank stock | 38,576 | 38,576 | 34,441 | 34,420 | 34,319 |
| Interest receivable | 20,818 | 22,359 | 20,778 | 20,783 | 23,976 |
| Core deposit intangibles and goodwill | 158,740 | 160,017 | 161,294 | 162,571 | 165,974 |
| Cash surrender value of life insurance | 94,636 | 94,267 | 93,876 | 93,544 | 93,222 |
| Other real estate owned | 14,879 | 21,778 | 20,227 | 22,077 | 18,458 |
| Tax asset, deferred and refundable | 64,394 | 59,244 | 62,183 | 36,543 | 26,738 |
| Other assets | 31,123 | 31,747 | 16,153 | 63,281 | 13,830 |
| TOTAL ASSETS | \$ 4,480,952 | \$ 4,476,484 | \$ 4,717,045 | \$ 4,886,897 | \$ 4,784,155 |
| LIABILITIES | | | | | |
| Deposits: | | | | | |
| Noninterest-bearing | \$ 516,487 | \$ 477,040 | \$ 512,368 | \$ 462,167 | \$ 460,519 |
| Interest-bearing | 3,020,049 | 3,035,455 | 3,078,555 | 3,222,797 | 3,258,292 |
| Total Deposits | 3,536,536 | 3,512,495 | 3,590,923 | 3,684,964 | 3,718,811 |
| Borrowings: | | | | | |
| Federal funds purchased | | | 15,042 | | |
| Securities sold under repurchase agreements | 125,687 | 125,045 | 115,011 | 113,106 | 122,311 |
| Federal Home Loan Bank advances | 129,749 | 130,024 | 268,938 | 278,583 | 360,217 |
| Subordinated debentures, revolving credit lines and term loans | 194,790 | 194,787 | 194,783 | 204,779 | 135,826 |
| Total Borrowings | 450,226 | 449,856 | 593,774 | 596,468 | 618,354 |
| Interest payable | 5,711 | 5,722 | 7,351 | 8,278 | 8,844 |
| Other liabilities | 24,694 | 32,511 | 51,619 | 89,082 | 42,243 |
| Total Liabilities | 4,017,167 | 4,000,584 | 4,243,667 | 4,378,792 | 4,388,252 |
| STOCKHOLDERS' EQUITY | | | | | |
| Preferred Stock, no-par value: | | | | | |
| Authorized -- 500,000 shares | | | | | |
| Series A, Issued and outstanding - 116,000 shares | 112,373 | 112,190 | 112,009 | 111,831 | |
| Cumulative Preferred Stock, \$1,000 par value, \$1,000 liquidation value: | | | | | |
| Authorized -- 600 shares | | | | | |
| Issued and outstanding - 125 shares | 125 | 125 | 125 | 125 | 125 |
| Common Stock, \$.125 stated value: | | | | | |
| Authorized -- 50,000,000 shares | | | | | |
| Issued and outstanding - 21,227,741 and 21,178,123 shares | 2,653 | 2,648 | 2,633 | 2,632 | 2,647 |
| Additional paid-in capital | 206,600 | 205,759 | 204,403 | 203,889 | 202,299 |
| Retained earnings | 150,860 | 164,419 | 172,688 | 205,616 | 206,496 |
| Accumulated other comprehensive loss | (8,826) | (9,241) | (18,480) | (15,988) | (15,664) |

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| | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| Total Stockholders' Equity | 463,785 | 475,900 | 473,378 | 508,105 | 395,903 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$4,480,952 | \$4,476,484 | \$4,717,045 | \$4,886,897 | \$4,784,155 |

CONSOLIDATED STATEMENTS OF OPERATIONS

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| (Dollars in thousands, except per share amounts) | December 31, 2009 | September 30, 2009 | June 30, 2009 | March 31, 2009 | December 31, 2008 |
|---|-------------------------|--------------------------|------------------|-------------------|-------------------------|
| INTEREST INCOME | | | | | |
| Loans receivable: | | | | | |
| Taxable | \$48,297 | \$ 50,683 | \$52,843 | \$ 53,793 | \$48,433 |
| Tax exempt | 296 | 280 | 247 | 215 | 349 |
| Investment securities: | | | | | |
| Taxable | 2,348 | 2,963 | 3,261 | 3,763 | 2,907 |
| Tax exempt | 2,668 | 2,788 | 2,362 | 1,769 | 1,511 |
| Federal funds sold | 37 | 27 | 42 | 12 | 7 |
| Deposits with financial institutions | 75 | 73 | 116 | 102 | 194 |
| Federal Reserve and Federal Home Loan Bank stock | 348 | 359 | 199 | 473 | 335 |
| Total Interest Income | 54,069 | 57,173 | 59,070 | 60,127 | 53,736 |
| INTEREST EXPENSE | | | | | |
| Deposits | 12,445 | 13,666 | 15,569 | 16,711 | 15,638 |
| Federal funds purchased | | 6 | | 22 | 108 |
| Securities sold under repurchase agreements | 511 | 512 | 507 | 467 | 502 |
| Federal Home Loan Bank advances | 1,627 | 2,209 | 2,447 | 2,949 | 2,583 |
| Subordinated debentures, revolving credit lines and term loans | 1,921 | 1,932 | 2,113 | 1,479 | 1,757 |
| Total Interest Expense | 16,504 | 18,325 | 20,636 | 21,628 | 20,588 |
| NET INTEREST INCOME | 37,565 | 38,848 | 38,434 | 38,499 | 33,148 |
| Provision for loan losses | 26,020 | 24,240 | 58,995 | 12,921 | 10,251 |
| NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES | 11,545 | 14,608 | (20,561) | 25,578 | 22,897 |
| OTHER INCOME | | | | | |
| Service charges on deposit accounts | 3,735 | 3,963 | 3,888 | 3,542 | 3,346 |
| Fiduciary activities | 1,826 | 1,844 | 1,680 | 2,059 | 1,831 |
| Other customer fees | 1,969 | 2,004 | 1,946 | 2,003 | 1,634 |
| Commission income | 1,181 | 1,459 | 1,698 | 2,059 | 1,271 |
| Earnings on cash surrender value of life insurance | 569 | 391 | 331 | 323 | (2,130) |
| Net gains and fees on sales of loans | 1,744 | 1,997 | 1,678 | 1,430 | 531 |
| Net realized and unrealized gains on sales of available for sale securities | 1,984 | 5,211 | 1,154 | 2,792 | 328 |
| Other-than-temporary impairment on available for sale securities | (2,979) | (1,227) | (2,045) | (478) | (1,242) |
| Other income | (472) | 41 | 1,160 | 741 | 717 |
| Total Other Income | 9,557 | 15,683 | 11,490 | 14,471 | 6,286 |
| OTHER EXPENSES | | | | | |
| Salaries and employee benefits | 18,680 | 17,945 | 19,685 | 20,015 | 15,880 |
| Net occupancy | 2,816 | 2,422 | 2,443 | 2,569 | 2,299 |
| Equipment | 1,935 | 1,875 | 1,909 | 1,876 | 1,713 |
| Marketing | 513 | 508 | 564 | 549 | 610 |
| Outside data processing fees | 1,488 | 1,360 | 1,405 | 1,933 | 1,128 |
| Printing and office supplies | 359 | 300 | 397 | 363 | 361 |
| Core deposit amortization | 1,277 | 1,277 | 1,278 | 1,277 | 809 |
| FDIC assessments | 3,203 | 3,121 | 3,494 | 576 | 530 |
| Other expenses | 9,386 | 10,187 | 7,017 | 5,556 | 5,670 |
| Total Other Expenses | 39,657 | 38,995 | 38,192 | 34,714 | 29,000 |
| INCOME (LOSS) BEFORE INCOME TAX | (18,555) | (8,704) | (47,263) | 5,335 | 183 |
| Income tax expense (benefit) | (8,334) | (3,774) | (17,534) | 1,218 | (38) |
| NET INCOME (LOSS) | (10,221) | (4,930) | (29,729) | 4,117 | 221 |

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| | | | | | |
|--|--------------------|-------------------|--------------------|----------------|--------------|
| Preferred stock dividends and discount accretion | 1,451 | 1,450 | 1,450 | 628 | |
| NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS | \$(11,672) | \$(6,380) | \$(31,179) | \$3,489 | \$221 |
| PER SHARE: | | | | | |
| Basic Net Income (Loss) Available to Common Stockholders | \$(0.55) | \$(0.30) | \$(1.49) | \$0.17 | \$0.01 |
| Diluted Net Income (Loss) Available to Common Stockholders | \$(0.55) | \$(0.30) | \$(1.49) | \$0.17 | \$0.01 |
| Cash Dividends Paid | \$0.08 | \$0.08 | \$0.08 | \$0.23 | \$0.23 |
| Average Diluted Shares Outstanding (in thousands) | 21,211 | 21,170 | 21,120 | 21,093 | 18,257 |
| FINANCIAL RATIOS: | | | | | |
| Return on Average Assets | (1.04)% | (0.55)% | (2.59)% | 0.30 % | 0.02 % |
| Return on Average Stockholders' Equity | (9.87) | (5.35) | (24.58) | 3.10 | 0.25 |
| Average Earning Assets to Average Assets | 90.28 | 90.82 | 91.07 | 91.07 | 91.15 |
| Allowance for Loan Losses as % of Total Loans | 2.81 | 2.54 | 2.16 | 1.60 | 1.33 |
| Net Charge Off's as % of Average Loans (Annualized) | 2.49 | 1.64 | 4.44 | 0.65 | 0.57 |
| Dividend Payout Ratio | (14.55) | (26.67) | (5.41) | 135.29 | 2,300.00 |
| Average Stockholders' Equity to Average Assets | 10.50 | 10.23 | 10.54 | 9.55 | 9.13 |
| Tax Equivalent Yield on Earning Assets | 5.48 | 5.56 | 5.52 | 5.69 | 6.21 |
| Cost of Supporting Liabilities | 1.62 | 1.73 | 1.88 | 2.01 | 2.33 |
| Net Interest Margin (FTE) on Earning Assets | 3.86 | 3.83 | 3.64 | 3.68 | 3.88 |

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LOANS

(Dollars in thousands)

| | December 31, 2009 | September 30, 2009 | June 30, 2009 | March 31, 2009 | December 31, 2008 |
|--|------------------------------|-------------------------------|--------------------------|---------------------------|------------------------------|
| Commercial and industrial loans | \$ 675,860 | \$ 806,289 | \$ 874,671 | \$ 891,393 | \$ 904,646 |
| Agricultural production financing and other loans to farmers | 121,031 | 124,601 | 121,361 | 120,462 | 135,099 |
| Real estate loans: | | | | | |
| Construction | 158,725 | 147,343 | 162,765 | 208,145 | 252,487 |
| Commercial and farmland | 1,254,115 | 1,228,983 | 1,231,986 | 1,246,450 | 1,202,372 |
| Residential | 841,584 | 855,931 | 930,714 | 949,259 | 956,245 |
| Individuals' loans for household and other personal expenditures | 154,132 | 177,338 | 174,363 | 193,109 | 201,632 |
| Tax exempt loans | 22,049 | 23,846 | 23,596 | 18,121 | 28,070 |
| Lease financing receivables, net of unearned income | 7,135 | 7,797 | 8,095 | 8,178 | 8,996 |
| Other loans | 35,157 | 26,594 | 26,678 | 18,957 | 32,405 |
| | 3,269,788 | 3,398,722 | 3,554,229 | 3,654,074 | 3,721,952 |
| Allowance for loan losses | (92,131) | (86,918) | (77,119) | (58,502) | (49,543) |
| TOTAL LOANS | \$ 3,177,657 | \$ 3,311,804 | \$ 3,477,110 | \$ 3,595,572 | \$ 3,672,409 |

DEPOSITS

(Dollars in thousands)

| | December 31, 2009 | September 30, 2009 | June 30, 2009 | March 31, 2009 | December 31, 2008 |
|---|------------------------------|-------------------------------|--------------------------|---------------------------|------------------------------|
| Demand deposits | \$ 1,308,741 | \$ 1,178,372 | \$ 1,197,646 | \$ 1,166,205 | \$ 1,136,267 |
| Savings deposits | 733,142 | 726,894 | 740,340 | 743,812 | 721,387 |
| Certificates and other time deposits of \$100,000 or more | 438,264 | 492,875 | 503,971 | 511,873 | 546,081 |
| Other certificates and time deposits | 781,509 | 803,173 | 835,899 | 853,149 | 837,793 |
| Brokered deposits | 274,880 | 311,181 | 313,067 | 409,925 | 477,283 |
| TOTAL DEPOSITS | \$ 3,536,536 | \$ 3,512,495 | \$ 3,590,923 | \$ 3,684,964 | \$ 3,718,811 |