

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

FIRST MERCHANTS CORP  
Form 8-K  
February 25, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 25, 2003

FIRST MERCHANTS CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA

(State or other jurisdiction of incorporation)

0-17071  
(Commission File Number)

35-1544218  
(IRS Employer Identification No.)

200 East Jackson Street  
P.O. Box 792  
Muncie, Indiana  
(Address of principal executive offices)

47305-2814  
(Zip Code)

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

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

Exhibit 99            2002 Annual Report to Shareholders (Furnished  
pursuant to Regulation FD)

ITEM 9. REGULATION FD DISCLOSURE.

On February 25, 2003, the Registrant mailed its 2002 Annual Report to Shareholders to its shareholders of record on February 13, 2003. The 2002 Annual Report to Shareholders is attached hereto as Exhibit 99 and is incorporated herein by reference. The 2002 Annual Report to Shareholders is being furnished by the Registrant pursuant to Regulation FD and is not being filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934,

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

By: /s/ Larry R. Helms

-----  
Larry R. Helms, Senior Vice President

Dated: February 25, 2003

EXHIBIT INDEX  
-----

Exhibit No. -----	Description -----
99	2002 Annual Report to Shareholders

First Merchants Corporation

Exhibit No. 99

2002 ANNUAL REPORT TO SHAREHOLDERS

[GRAPHIC OMITTED]

Your Partners  
In Success

[LOGO] First Merchants Corporation

Mission & operating philosophy	2
Financial highlights	3
To our shareholders	4
Your partners in success	7
2002...the year in review	16
Five-year summary	18
Investor summary	19

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Stock & dividend information	20
Market area	21
Corporate profile	22
Directors	23
Officers	24

The photo on the cover and title page was taken at the First Merchants Corporation Mega Conference on October 14, 2002.

The event brought together all employees of the Corporation for a day-long program of training, sharing and partnership building.

Photography by Andy Oehler

[LOGO]

[PHOTO OMITTED]

### OUR MISSION

-----

First Merchants Corporation will be the financial institution of choice in its coverage markets for banking, trust and insurance services.

### CORPORATE VALUES

-----

#### CLIENT

- o Producing client satisfaction through delivering quality products and superior quality service

#### SERVICE

- o Providing employees with growth opportunities for personal achievement and career satisfaction

#### COMES

- o Achieving a superior return on our shareholders' investment

#### FIRST

We will take the "Extra Step" to recognize client needs, to exercise initiative in developing sales and service opportunities and to service client needs in a personal, reliable and professional manner.

### OUR OPERATING PHILOSOPHY

-----

To achieve our mission, we seek to implement five objectives which define the way we conduct our business.

We strive to be:

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

- o Client-Focused...  
placing our clients' needs and superior client service as our highest priority;
- o Value-Driven...  
providing products and services of high value at competitively fair prices;
- o Plan-Disciplined...  
achieving market initiative and superior financial results through planning;
- o Committed to Recruiting & Retaining Achievers...  
creating an environment of personal growth, trust and team work which encourages and allows all of our employees to reach their highest level of achievement;
- o Decisive Leaders...  
doing the right things in all that we do, communicating our position and acting on it.

2

### Financial Highlights

(table dollar amounts in thousands, except per share data)

	2	2
	0	0
	0	0
	2	1
 At Year End		
Total Assets .....	\$2,678,687	\$1,787,035
Stockholders' Equity .....	261,129	179,128
Total Loans .....	2,025,922	1,359,893
Securities .....	342,062	240,322
Total Deposits .....	2,036,688	1,421,251
Trust Accounts at Market Value		
(not included in banking assets) .....	1,332,723	1,374,026
 For the Year		
Interest Income .....	\$ 146,682	\$ 120,435

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Interest Expense .....	53,759	56,074
Net Interest Income .....	92,923	64,361
Total Other Income .....	27,077	18,543
Total Other Expenses .....	71,009	45,195
Net Income .....	27,836	22,209

Per share (1)

Basic Net Income .....	\$ 1.79	\$ 1.71
Diluted Net Income .....	1.77	1.69
Cash Earnings (2) .....	1.80	1.77
Cash Dividends .....	.90	.88
Book Value .....	16.00	13.46
Market Value (Dec. 31 Bid Price) .....	22.75	22.87

Averages During the Year

Total Assets .....	\$2,406,251	\$1,689,694
Total Loans .....	1,842,429	1,270,555
Securities .....	314,409	292,901
Total Deposits .....	1,857,053	1,331,631

Diluted net income per share (1)  
(in dollars)

[THE FOLLOWING TABLE WAS DEPICTED AS A BAR CHART IN THE PRINTED MATERIAL]

98	99	00	01	02
-----	-----	-----	-----	-----
1.34	1.43	1.58	1.69	1.77

return on average equity  
(percent)

[THE FOLLOWING TABLE WAS DEPICTED AS A BAR CHART IN THE PRINTED MATERIAL]

98	99	00	01	02
-----	-----	-----	-----	-----
12.09	12.75	14.10	13.36	11.72

average assets  
(in millions of dollars)

[THE FOLLOWING TABLE WAS DEPICTED AS A BAR CHART IN THE PRINTED MATERIAL]

98	99	00	01	02
-----	-----	-----	-----	-----

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

1,254.2            1,397.2            1,532.7            1,689.7            2,406.3

- (1) Restated for a five percent (5%) stock dividend distributed September 2002.
- (2) Diluted Net Income plus amortization of purchase accounting adjustments and goodwill.

3

[PHOTO OMITTED]

A Commitment  
to Partnership

In 2002, First Merchants Corporation achieved its 27th consecutive year of increased earnings, a record matched by only two dozen U.S. publicly traded companies.

During the last half of 2002, we initiated the process of combining our trust and investment services into a single stand-alone company. Through this unification the new entity... Merchants Trust Company... became one of the largest trust companies in Indiana.

To Our Shareholders:

In times of economic, political and corporate governance uncertainty, it is gratifying to report to our shareholders another year of successful performance.

In 2002, First Merchants Corporation achieved its 27th consecutive year of increased earnings, a record matched by only two dozen U.S. publicly traded companies. This is an unusual level of accomplishment given the volatility in our economy over the last two years. We attribute our success to our relationship with our clients, the ability to affiliate with quality community banks in our Corporation, and a continuing commitment toward achievement demonstrated by our staff.

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

27th consecutive year of earnings growth

Our corporate earnings grew to \$27.8 million in 2002. Our earnings per share were \$1.77. These earnings were achieved from an asset base of \$2.7 billion, a 49.9% increase over last year. Our earnings represent a 1.16% return on assets, which compares favorably to our industry peer group. First Merchants Corporation has achieved quality performance for many years, as our earnings history attests.

Loan growth

First Merchants Corporation again experienced robust growth in its loan portfolio. Commercial loans increased by 34.7%. Mortgage lending, fueled by low interest rates and demand for new housing, grew by 37.2%; mortgage origination revenues increased by 38.6% to \$1.7 million. Commercial, residential and consumer lending continued to be driven by our commitment to regional economic development and support of the communities we serve.

Trust & investment growth

The Trust & Investment Divisions of our banks continue to be significant contributors to First Merchant Corporation's earnings. Despite the travails of the public securities markets, total revenue produced by these activities amounted to \$6.25 million.

During the last half of 2002, we initiated the process of combining our trust and investment services into a single stand-alone company. With the full support of the regulators, this initiative culminated in the formation of the Merchants Trust Company on January 1, 2003. This wholly owned subsidiary of the Corporation will continue its delivery of high-quality services to our many clients as well as expand our presence into other attractive venues.

4

Insurance services

First Merchants Corporation is a majority member in the Indiana Title Insurance Company, with two other banking partners. In its first year of operations under this structure, Indiana Title Insurance Company added \$912,000 in revenue while providing invaluable additional service to our lending programs.

First Merchants Insurance Services, our property casualty and health care insurance agency, continued to produce positive results in spite of a difficult insurance market. They acquired the Stephenson Agency in Madison County in August, and will likely see future additions in coming months.

Acquisitions of 2002

First Merchants Corporation continued its commitment to growth in 2002, through affiliation with community banks in attractive markets. Our merger with Lafayette Bancorp was completed April 1, 2002. This addition was our largest to date and added \$770 million to our asset base.

In connection with this transaction, we successfully distributed in a public offering \$53 million of Trust Preferred Securities. This issue of 8.75%, 30-year preferred securities was eagerly absorbed by the market and has traded at a premium since its debut under the symbol FRMEP.

In August 2002, we were especially pleased to announce a definitive agreement to

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

bring Commerce National Bancorp into the First Merchants family. Commerce National Bancorp represents our first opportunity outside the State of Indiana, and positions the Corporation positively to develop the affluent markets of Columbus, Ohio, and its suburbs. This transaction is expected to close in early 2003 and will add approximately \$320 million to our assets.

The structure of our business

First Merchants Corporation operates under a multi-charter business model, meaning that each affiliate bank retains its own charter, either Federal or State.

Each bank, the emphasis on individual bank, must undergo routine regulatory review of its assets and asset quality, capital adequacy, internal operating controls, liquidity, and management soundness. Each bank must stand on its own safety and soundness. First Merchants Corporation is only as strong as its partner banks and through this structure is able to assure its investors of an exceedingly high standard of oversight and financial stability.

[PHOTO OMITTED]

A Commitment  
to Growth

Our commitment to growth through  
affiliation with community banks  
in attractive markets continued in  
2002 with...

- o the completion of our merger with  
LAFAYETTE BANCORP and
- o a definitive agreement to bring  
COMMERCE NATIONAL BANCORP into the  
First Merchants Family -  
representing our first opportunity  
outside the state of Indiana and  
putting the Corporation into  
position to develop the affluent  
markets of Columbus, Ohio, and its  
suburbs.

continued

[PHOTO OMITTED]



## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

A Commitment  
to Excellence

The success that

First Merchants Corporation

has achieved is due to a

commitment to excellence

and a lot of hard work.

This commitment is the

foundation of our success.

Sarbanes-Oxley

In August 2002, Congress passed the Sarbanes-Oxley Act to improve corporate governance and accountability, in the wake of the numerous business scandals that had shaken the markets and investor confidence. First Merchants Corporation has practiced many of the newly required provisions before the scandals occurred and before this legislation. For instance, Sarbanes-Oxley prohibits personal loans to executives. First Merchants Corporation has adhered to this provision of the 30-year-old Federal Reserve Regulation "O" in all its dealings with executives, directors and insiders. Sarbanes-Oxley mandates independence of auditors and director committees. First Merchants has consistently balanced its internal audit program with independent external audit firms that have no conflicting engagements with the firm. Its internal audit, compensation and nominating committees have been comprised of non-executive outside directors.

First Merchants Corporation has a historical commitment to the security and safety of client monies, and to the monies of its investors. First Merchants Corporation will continue to be in the forefront of sound governance and management oversight to reinforce the security and safety of all our partners.

Human capital

Most importantly, First Merchants Corporation focuses on the human side of our business. We provide our employees with a high level of training, as exemplified by our Corporate Mega Conference, shown on the cover of this report, in which all employees received training in corporate systems and operations. We assembled nearly 1,100 employees in Muncie to engage in training, team building and corporate stewardship exercises. Through this and other regular meetings, our community affiliate strategies, operational efficiencies, and sales systems can be easily introduced and implemented with any new partner.

The success that First Merchants Corporation has achieved is due to our commitment to excellence and a lot of hard work. Our directors, senior management, and employees have reinforced our commitment to the client and the shareholder. This commitment is the foundation of our success.

[PHOTO OMITTED]

Sincerely,

/s/ Michael L. Cox

Michael L. Cox  
President and Chief Executive Officer

Your Partners in Success

2002 ANNUAL REPORT TO SHAREHOLDERS

[PHOTO OMITTED]

No man is an island entire of itself, every man is a piece of the continent, a part of the main. -- John Donne

Success is rarely accomplished alone. Commitment, collaboration and cooperation of a resolute team is essential. At First Merchants Corporation, the efforts of literally thousands of people have joined together to create our record of solid achievement. We know that we succeed when others succeed. Partnerships with each of our affiliate banks, combined with a longstanding commitment to community partnership were critical factors contributing to the Corporation's positive record for 2002.

[LOGO] First Merchants Corporation

Your Partners in Success

[PHOTO OMITTED]

Partnerships often create expanded markets for their participating

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

organizations, including  
a wider geographic reach  
and/or access to new segments  
of an established market.

### Lafayette Bank & Trust...Our Largest Merger to Date

Lafayette Bank & Trust, a high-performing bank in a vibrant market, is the latest addition to the First Merchants Corporation family of Community Banks. The merger was completed on April 1, 2002, making this strong, strategic business partner First Merchants Corporation's largest merger to date.

Lafayette Bank & Trust Company first opened its doors on May 1, 1899, in downtown Lafayette, as a state-chartered Community Bank under the name of Lafayette Loan & Trust.

Lafayette is a community with a population of approximately 150,000 and a labor force of 100,000, drawing from neighboring counties. Lafayette was named the top city in Indiana in which to reside and was also named "Community of the Year" by the Indiana Chamber of Commerce in 2001. Money magazine ranked Lafayette number two on its June 1998 listing of the top Midwest small cities in the United States in which to live. This poll examined health care facilities, crime rates, the economy, housing, education, transit, weather, leisure and the arts, proving once again that Lafayette is a great place. Lafayette has also been listed 21st of 300 in the ranking of industry friendly communities in Industry Week.

8

[PHOTO OMITTED]

Tippecanoe County has one of the lowest rates of unemployment in Indiana. Approximately four percent of the population work in more than 100 manufacturing plants, such as Suburu-Izuzu, Wabash National, Caterpillar, Eli Lilly and Alcoa, to name a few. Lafayette is also home to other significant employers of educational, governmental and professional services. Its sister city, West Lafayette, is home to Purdue University, with 12,000 faculty and staff and 38,000 students.

Lafayette Bank & Trust has twenty offices in four counties - Tippecanoe, White, Jasper, and Carroll with assets of \$762 million. As the financial leader in its area with 24% of the region's total deposits, it also ranked at the top of a recent survey by the Journal & Courier, which asked respondents what institution first came to mind for financial services. Since its beginnings more than a century ago, Lafayette Bank & Trust has provided trust services for residents and public entities, currently managing assets in excess of \$300 million. Lafayette Bank & Trust has long been the leader in mortgage loans in its markets. Its senior mortgage lender was featured in the Mortgage Bankers magazine, which ranked him fifth of the "Top 50 Mortgage Bankers" in the country.

Over the years, the Bank has made two major acquisitions. In 1988, it purchased the Bank of Reynolds in White County, with assets totaling over \$55 million. In 1999, it acquired, from Bank One, three branches in Jasper County with deposits totaling \$118 million. In 1995, it took the initiative and entered in-store banking and opened its first full-service branch inside Payless Supermarket stores. It has since partnered with Wal-Mart, increasing its

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

in-store branches to four and extending its full-service hours to 70 per week. With the acquisition of Lafayette Bank & Trust, the First Merchants Corporate footprint now extends into northwest Indiana, an attractive market which is home to many Chicago commuters who appreciate the more affordable lifestyle.

9

Your Partners in Success

[PHOTO OMITTED]

Partnerships offer

expanded resources.

Partners have easier,

more convenient access

to important specialized

resources such as expertise,

space, technology and materials.

10

[PHOTO OMITTED]

Merchants Trust Company Unites Wealth Management Services

At the end of 2002, First Merchants Corporation announced the formation of Merchants Trust Company, a wholly owned subsidiary of First Merchants Corporation. The new company unites the trust and asset management services of all affiliate banks of the Corporation and represents one of the largest trust companies in the state of Indiana, with assets in excess of \$1.3 billion.

First Merchants Corporation President and, CEO, Michael Cox said, "In forming Merchants Trust Company, we remain true to our commitment of partnering with local community banks to provide the personal service that our customers desire. The efficiencies gained in combining our trust services will give us greater resources in investment management, estate planning, retirement plan services, and state-of-the-art operating systems."

Headquarters for the Company will be in Muncie, Indiana, with trust offices in Muncie, Lafayette and Portland. Future expansion plans call for additional trust offices in Indianapolis and other markets where retail banking relationships currently exist.

Local senior management and trust administrators will continue to provide the hands-on, personal service to our trust and investment clients that they have come to enjoy. Our combined resources will allow us to expand our services, making our local trust offices the premier provider in each community First Merchants Corporation serves.

Merchants Trust Company provides a full range of trust and investment services for individuals, families, businesses, and not-for-profit organizations. In addition, the Company specializes in turn-key retirement plans, including

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

pension plans, profit sharing, 401(k) and 403(b) plans, cross-tested plans, and cash balance plans.

11

Your Partners in Success

[PHOTO OMITTED]

New Insurance Partnership Offers Expanded Options

In October, First Merchants Insurance Services merged with Pendleton Insurance Company. Pendleton Insurance has been a part of its community since 1872. The new partnership will allow First Merchants Insurance Services to write insurance policies through more companies, providing more options for the consumer. First Merchants Insurance represents more than two dozen A+ rated insurance companies providing a comprehensive line of insurance plans for both personal and commercial needs.

12

[PHOTO OMITTED]

Partnerships offer

their participants

a sense of interdependence.

They offer both

connections and community.

Mega Conference...

where all FMC employees come together

On October 14, 2002, the employees of First Merchants Corporation and its affiliate banks gathered at the Horizon Center in Muncie for a day of sharing and learning.

The FMC Mega Conference was designed to communicate First Merchants Corporation's vision and to clarify the services provided to the affiliate banks by corporate employees. Michael L. Cox, president and CEO, started the day with an opening address to all employees. The day's break-out sessions included presentations from compliance, finance, trust, human resources, sales and marketing, operations and technology, First Merchants Insurance Services and the Indiana Title Insurance Company.

Throughout the day, employees were able to put faces on the names of Corporation staff and meet fellow colleagues from the affiliate banks. It is a corporate goal to provide opportunities for affiliate employees to interact with and learn from other affiliates as well as recognize the resources that can be accessed for support and assistance. Employees were also given opportunities to submit questions to their own presidents, as the day concluded with an "Ask Your CEO Session."

13

Your Partners in Success

[PHOTO OMITTED]

Partnership is an active relationship based on recognition of a common interest to secure the competitiveness, visibility and prosperity of the enterprise.

14

[PHOTO OMITTED]

Committed to Partnership...  
now and into the future

The many partnerships between First Merchants Corporation, its nine affiliate banks, and the businesses and individuals in each community the Corporation serves have led us to the successes we have achieved throughout the years. It is also these very same relationships and the new partnerships yet to be formed that will all be responsible for helping elevate First Merchants Corporation to the next level. We continue to be humbled by the incredible support of everyone in the First Merchants Corporation family, from shareholders to employees and financial service customers in every market we serve. We look forward to further growth and expansion for all areas of the Corporation including each affiliate bank, First Merchants Insurance Services, Indiana Title Insurance Company, and Merchants Trust Company. With the continued commitment of our more than one thousand employees, we will stay focused on our mission.

15

2002  
THE YEAR IN REVIEW

Partnering  
with the media

All forms of the media play an important role in communicating the message of First Merchants Corporation. This timeline presents 2002 public announcements provided to the Corporation's numerous media outlets, shareholders, affiliate banks and the communities they serve.

--> JANUARY

26th consecutive increase in earnings per share

First Merchants Corporation has reported that 2001 cash-basis diluted earnings per share increased 7.5% to \$1.86, up from \$1.73 in the prior year. First Merchants' common stock continued to receive an A+ rating from Standard and Poor's. President and CEO Michael Cox noted that, "the rating reflects our consistent record of earnings growth and dividend increases, and results from our operating philosophy, which emphasizes balanced attention to efficiency, growth and asset quality."

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Given the competitive financial environment and the many choices the consumers have, continuous achievements like this could not happen without the commitment of each affiliate bank to the mission, goals and objectives of the Corporation.

--> APRIL

Merger with Lafayette Bank & Trust Company

First Merchants Corporation successfully completed its previously announced merger with Lafayette Bancorp. Lafayette Bank & Trust Company has become the second largest affiliate of First Merchants Corporation. Mr. Cox remarked, "Lafayette Bank & Trust has a long history of excellent performance. It is the largest community banking organization in a very attractive growth market area. Bringing Lafayette Bank & Trust into the First Merchants family results in a natural extension of our company's geographic reach, and we are extremely pleased to have such an exemplary partner."

[CHART OMITTED]

--> APRIL

First Merchants issues \$53 million in trust preferred securities

First Merchants Corporation issued Trust Preferred Securities totaling \$53 million to generate proceeds to pay the cash election portion of the Lafayette Bancorp merger. The 30-year instrument was issued at \$25 per share (FRMEP). The stock has since traded at a premium as indicated by the chart to the left.

--> JULY

10.9% increase in earnings per share

First Merchants Corporation reported that second quarter 2002 diluted earnings per share increased 10.9% to \$.51, up from \$.46 in prior year. Net income increased \$2,366,000, or 42.5% from \$5,574,000 to \$7,940,000 during the same period. A sizeable balance sheet growth, primarily attributable to the acquisitions of Francor Financial, Inc. (Frances Slocum Bank) and Lafayette Bancorp, combined with continuing increases in earnings per share illustrates that mergers and acquisitions are a core competency. That improved net interest margin, during this record low interest rate environment, has been aided by increasing non-maturity deposits, as customers appear to be placing money in safer and more liquid investments.

--> AUGUST

20th consecutive annual dividend increase

Twenty consecutive annual dividend increases reflects the Corporation's operating performance and its mission of providing consistent returns to its shareholders.

--> AUGUST

First Merchants Corporation and CNBC agree to merge First Merchants (\$2.7 billion) and Commerce National Bancorp (\$320 million) will have combined assets of \$3 billion. Upon completion of the merger, Commerce National Bank, CNBC's subsidiary, will continue to operate as a growing commercial

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

banking entity in the greater Columbus, Ohio, market. Thomas McAuliffe will continue as its Chief Executive Officer and John Romelfanger will continue as Chief Operating Officer, and its 16-member Board of Directors will remain intact.

--> OCTOBER

First Merchants announces 9.1% increase in earnings per share

Continued strong net interest margin helped fuel third quarter earnings in a time of declining economic conditions and financial markets.

16

Investor Summary | Corporate Review

2002 ANNUAL REPORT TO SHAREHOLDERS

[PHOTO OMITTED]

2002 = 27 YEARS OF CONSECUTIVE EARNINGS GROWTH

A record matched by only two dozen

U.S. publicly traded companies

First Merchants Corporation

common stock continues

to receive an "A+" rating

from Standard and Poor's.

[LOGO] First Merchants Corporation

17

Five-Year Summary

OF SELECTED FINANCIAL DATA

(in thousands, except share data)

	2002	2001	2000	1999
operations				
Net Interest Income				
Fully Taxable Equivalent (FTE) Basis .....	\$ 96,599	\$ 66,806	\$ 58,619	\$ 56,214
Less Tax Equivalent Adjustment .....	3,676	2,445	2,637	2,637
	-----	-----	-----	-----
Net Interest Income .....	92,923	64,361	55,982	53,577
Provision for Loan Losses .....	7,174	3,576	2,625	2,637
	-----	-----	-----	-----
Net Interest Income				
After Provision for Loan Losses .....	85,749	60,785	53,357	50,940



Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Total Other Income .....	27,077	18,543	16,634	14
Total Other Expenses .....	71,009	45,195	40,083	36
	-----	-----	-----	-----
Income Before Income Tax Expense .....	41,817	34,133	29,908	29
Income Tax Expense .....	13,981	11,924	9,968	10
	-----	-----	-----	-----
Net Income .....	\$ 27,836	\$ 22,209	\$ 19,940	\$ 19
	=====	=====	=====	=====
per share data (1)				
Basic Net Income .....	\$ 1.79	\$ 1.71	\$ 1.59	\$
Diluted Net Income .....	1.77	1.69	1.58	
Cash Dividends Paid (2) .....	.90	.88	.82	
December 31 Book Value .....	16.00	13.46	12.19	1
December 31 Market Value (Bid Price) .....	22.75	22.87	20.52	2
average balances				
Total Assets .....	\$2,406,251	\$1,689,694	\$1,532,691	\$1,397
Total Loans .....	1,842,429	1,270,555	1,104,013	935
Total Deposits .....	1,857,053	1,331,631	1,209,015	1,073
Securities Sold Under Repurchase Agreements (long-term portion) .....	66,535	44,394	53,309	56
Total Federal Home Loan Bank Advances .....	155,387	103,941	80,008	57
Total Stockholders' Equity .....	237,575	166,232	141,446	149
year-end balances				
Total Assets .....	\$2,678,687	\$1,787,035	\$1,621,063	\$1,474
Total Loans .....	2,025,922	1,359,893	1,175,586	998
Total Deposits .....	2,036,688	1,421,251	1,288,299	1,147
Securities Sold Under Repurchase Agreements (long-term portion) .....	23,632	32,500	32,500	35
Total Federal Home Loan Bank Advances .....	184,677	103,499	93,182	73
Total Stockholders' Equity .....	261,129	179,128	156,063	126
financial ratios				
Return on Average Assets .....	1.16%	1.31%	1.30%	
Return on Average Stockholders' Equity .....	11.72	13.36	14.10	1
Average Earning Assets to Total Assets .....	91.38	93.29	94.85	9
Allowance for Loan Losses as % of Total Loans	1.11	1.11	1.06	
Dividend Payout Ratio .....	50.85	52.07	51.90	5
Average Stockholders' Equity to Average Assets	9.87	9.84	9.23	1
Tax Equivalent Yield on Earning Assets (3) ..	6.83	7.80	8.19	
Cost of Supporting Liabilities .....	2.44	3.56	4.16	
Net Interest Margin on Earning Assets .....	4.39	4.24	4.03	

(1) Restated for all stock dividends and stock splits.

(2) Dividends per share is for First Merchants Corporation only, not restated for pooling transactions.

(3) Average earning assets include the average balance of securities classified as available for sale, computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

1 | 2  
 9 | 0  
 7 | 0  
 5 | 2

27 Years of Consecutive Earnings Growth

[THE FOLLOWING TABLE WAS DEPICTED AS A MOUNTAIN CHART IN THE PRINTED MATERIAL]

1975	2002
\$1,537,000	\$27,836,000

[PHOTO OMITTED]

Stock performance

A purchase of 100 shares in September 1982, when the holding company was organized, would have cost \$4,200. Through three 2-for-1 stock splits, three 3-for-2 splits, and two five percent (5%) stock dividends, the number of shares held as of December 31, 2002, would be approximately 2,977 with a market value of \$67,726. In addition, dividends in the amount of \$26,627 would have been paid on the initial investment of \$4,200.

[THE FOLLOWING TABLE WAS DEPICTED AS A BAR CHART IN THE PRINTED MATERIAL]

Initial Investment (9-82)	\$4,200
Dividends Received (through 12-31-02)	\$26,627
Market Value (bid)	\$67,726

Return on assets

[THE FOLLOWING TABLE WAS DEPICTED AS A BAR CHART IN THE PRINTED MATERIAL]

	00	01	02
	----	----	----
First Merchants	1.30%	1.31%	1.16%
SNL Securities Peer Group (1)	1.32%	1.11%	1.18%

Return on equity

	00	01	02
	----	----	----
First Merchants	14.10%	13.36%	11.72%
SNL Securities Peer Group (1)	14.60%	13.79%	14.25%

Efficiency ratio

(indicates the cost to produce a dollar of revenue)

	00	01	02
	----	----	----

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

First Merchants	53.2	52.9	57.7
SNL Securities Peer Group (1)	55.1	57.8	57.8

Loan losses  
(as a percent of average loans)

	00	01	02
	----	----	----
First Merchants	.16	.23	.37
SNL Securities Peer Group (1)	.18	.24	.28

(1) Bank holding companies with assets from \$1 billion to \$5 billion. 2002 peer data reflects results through September 30, 2002.

[PHOTO OMITTED]

Investor  
Summary

TRADING HISTORY

Listed on NASDAQ/NMS  
on June 20, 1989

Trading Symbol: FRME  
2002 Stock Price Range:  
High \$28.75  
Low \$20.95

Current bid price  
as of 12/31/02: \$22.75

2002 NASDAQ  
Trading Volume:  
5,770,610 shares

December 31, 2002  
Shares outstanding:  
16,322,748

19

[PHOTO OMITTED]

Stock  
& Dividend  
Information

Price per share

Quarter	High		Low		Dividends declared	
	2002	2001	2002	2001	2002	2001
First quarter	\$25.76	\$22.90	\$20.95	\$18.99	\$ .22	\$ .22

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Second quarter	28.71	21.70	24.29	19.72	.22	.22
Third quarter	28.75	23.57	21.43	19.96	.23	.22
Fourth quarter	25.47	23.78	21.66	21.57	.23	.22

The table above lists per share prices and dividend payments during 2002 and 2001.

Prices are as reported by the National Association of Securities Dealers.

Automated Quotation - National Market System.

Numbers rounded to nearest cent when applicable.

Restated for a five percent (5%) stock dividend distributed September, 2002 and 2001.

General stockholder inquiries

Stockholders and interested investors may obtain information about the Corporation upon written request or by calling:

Mr. Brian A. Edwards  
Shareholder Relations Officer  
First Merchants Corporation  
P.O. Box 792  
Muncie, Indiana 47308-0792  
765.741.7278  
1.800.262.4261 Ext. 7278  
bedwards@firstmerchants.com

Stock transfer agent & registrar

American Stock Transfer & Trust Company  
59 Maiden Lane o First Floor  
New York, New York 10038

Form 10-k & financial information

First Merchants Corporation, upon request and without charge, will furnish stockholders, security analysts and investors a copy of Form 10-K filed with the Securities and Exchange Commission.

Market makers

The following firms make a market in First Merchants Corporation stock:

First Tennessee Securities

Geduld LLC

Keefe, Bruyette & Woods, Inc.

Knight Securities, L.P.

Herzog, Heine, Geduld, Inc.

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Howe Barnes Investments, Inc.

Sandler O'Neill & Partners

NatCity Investments, Inc.

RBC Capital Markets

Spear, Leeds & Kellogg

Stifel, Nicolaus & Company, Inc.

Please contact:

Mr. Mark K. Hardwick  
Senior Vice President  
and Chief Financial Officer  
First Merchants Corporation  
P.O. Box 792 Muncie, Indiana 47308-0792  
765.751.1857  
1.800.262.4261 Ext. 1857  
mhardwick@firstmerchants.com

20

[PHOTO OMITTED]

First Merchants Corporation  
Market area 2002

[PHOTO OMITTED]

First Merchants Corporation currently provides services through 70 banking centers located in Delaware, Adams, Boone, Carroll, Fayette, Hamilton, Henry, Howard, Jasper, Jay, Madison, Miami, Randolph, Tippecanoe, Wabash, Wayne, White and Union Counties in Indiana and Butler County in Ohio.

INDIANA

DELAWARE COUNTY (12)

Corporate Office o Muncie

Albany

Daleville

Eaton

ADAMS COUNTY (4)

Decatur

BOONE COUNTY (1)

Zionsville

CARROLL COUNTY (1)

Flora

FAYETTE COUNTY (3)

Connersville

HAMILTON COUNTY (5)

Carmel

Fishers

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Noblesville  
Westfield

HENRY COUNTY (3)  
Middletown  
Mooreland  
Sulphur Springs

HOWARD COUNTY (1)  
Kokomo

JASPER COUNTY (4)  
Demotte  
Remington  
Rensselaer

JAY COUNTY (2)  
Portland

MADISON COUNTY (9)  
Anderson  
Edgewood  
Ingalls  
Lapel  
Markleville  
Pendleton

MIAMI COUNTY (2)  
Peru

RANDOLPH COUNTY (2)  
Winchester

TIPPECANOE (11)  
Lafayette  
West Lafayette

UNION COUNTY (1)  
Liberty

WABASH COUNTY (3)  
North Manchester  
Wabash

WAYNE COUNTY  
(1) Richmond

WHITE COUNTY (4)  
Brookston  
Monticello  
Reynolds

OHIO  
BUTLER COUNTY (1)  
Oxford

\* ( ) Number of banking offices/county

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

[PHOTO OMITTED]

Corporate profile

First Merchants Corporation

Corporate Office

200 East Jackson Street

Muncie, Indiana 47305

765.747.1500

<http://www.firstmerchants.com>

Annual meeting

The Annual Meeting of Stockholders

of First Merchants Corporation

will be held...

Thursday, April 10, 2003 o 3:30 pm

Horizon Convention Center

401 South High Street

Muncie, Indiana 47305

[PHOTO OMITTED]

First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana. It was organized in September 1982, as the bank holding company for the Merchants National Bank of Muncie, now First Merchants Bank, N.A. Since its organization, First Merchants Corporation has grown to include nine affiliate banks with 70 locations in 18 Indiana counties and one Ohio county, a multi-line insurance agency, a title insurance company and a trust company.

Subsidiaries of the Corporation include First Merchants Bank in Delaware, Hamilton and Boone Counties; Madison Community Bank in Madison County; First United Bank in Henry County; Union County National Bank (in Union, Fayette, Wayne and Oxford (Ohio) Counties); The Randolph County Bank; First National Bank of Portland in Jay County; Decatur Bank & Trust Company in Adams County; Frances Slocum Bank (in Wabash, Howard and Miami Counties); and Lafayette Bank & Trust Company (in Carroll, Jasper, White and Tippecanoe Counties). The Corporation also operates First Merchants Insurance Services, a full-service property, casualty, personal lines, and health care insurer, headquartered in Muncie, Indiana, and is a majority owner of the Indiana Title Insurance Company, LLC, a title insurance agency.

Effective January 1, 2003, First Merchants Corporation formed Merchants Trust Company. This unites the trust and asset management services of all affiliate banks of the Corporation and represents one of the largest trust companies in the state of Indiana, with assets in excess of \$1.3 billion. Merchants Trust Company provides a full range of trust and investment services for individuals, families, businesses, and not-for-profit organizations. In addition, Merchants Trust Company specializes in turn-key retirement plans, including pension plans, profit sharing, 401(k) and 403(b) plans, cross-tested plans, and cash balance

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

plans.

For seven years, First Merchants Corporation has been listed among America's Finest Companies, an investment guide published by The Staton Institute. First Merchants continues to receive an A+ rating from Standard & Poor's for its common stock (NASDAQ symbol FRME) and Blue Ribbon status for all affiliate banks from independent bank-rating service Veribanc.

At the end of 2002, First Merchants Corporation has accomplished 27 years of consecutive increased earnings.

First Merchants Corporation's operating philosophy is to be client-focused, value-driven, plan-disciplined, and managed for achievers from both an employee and shareholder perspective.

22

### Boards of Directors

#### First Merchants Corporation

Stefan S. Anderson  
Chairman of the Board

Robert M. Smitson  
Vice Chairman of the Board  
Maxon Corporation  
Chairman of the Board

Michael L. Cox  
First Merchants Corporation  
President  
Chief Executive Officer

Roger M. Arwood  
First Merchants Corporation  
Executive Vice President  
Chief Operating Officer

James F. Ault  
Madison Community Bank  
Chairman of the Board

Jerry M. Ault  
Frances Slocum Bank  
Chairman of the Board  
President  
Chief Executive Officer

Dennis A. Bieberich  
Decatur Bank & Trust Company  
President  
Chief Executive Officer

Richard A. Boehning  
Bennett, Boehning & Clary  
Of Counsel

Robert T. Jeffares  
Great Lakes Chemical Corporation  
Executive Vice President  
Chief Financial Officer  
Retired

Norman M. Johnson  
Stein Roe & Farnham  
Executive Vice President  
Retired

George A. Sissel  
Ball Corporation  
Chairman of the Board  
Retired

Dr. John E. Worthen  
Ball State University  
President  
Retired

SECRETARY TO

Larry R. Helm  
Senior Vice P  
First Merchan

ASSISTANT SEC

C. Ronald Hal  
First Merchan  
Vice Presiden



Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Frank A. Bracken, Esq.  
Bingham McHale, LLP  
Attorney  
Retired

Dr. Blaine A. Brownell  
Ball State University  
President

Thomas B. Clark  
Alltrista Corporation  
Chairman of the Board  
President  
Chief Executive Officer  
Retired

Barry J. Hudson  
First National Bank  
Chairman of the Board

First Merchants Bank, N.A.

Stefan S. Anderson  
Chairman of the Board

Robert M. Smitson  
Vice Chairman of the Board  
Maxon Corporation  
Chairman of the Board

Michael L. Cox  
First Merchants Corporation  
President  
Chief Executive Officer

Roger M. Arwood  
First Merchants Corporation  
Executive Vice President  
Chief Operating Officer

Jack L. Demaree  
First Merchants Bank President  
Chief Executive Officer

Ronald K. Fauquher  
Ontario Corporation  
Senior Vice President

Thomas K. Gardiner, MD, FACP  
Cardinal Health System, Inc.  
Executive Vice President

Suzanne L. Gresham, PhD  
Comprehensive Mental  
Health Services, Inc.  
President  
Chief Executive Officer  
Retired

John W. Hartmeyer  
Al Pete Meats, Inc.  
President

Decatur Bank & Trust Company

Philip H. Barger  
Chairman of the Board  
Barger Farms, Inc.

Dennis A. Bieberich  
Decatur Bank & Trust Company  
President  
Chief Executive Officer

Kevan B. Biggs  
Ideal Suburban Homes, Inc.  
Vice President

Gregory A. Fleming  
Fleming Excavating, Inc.  
President

Mark Kaehr  
R & K Incinerator, Inc.  
President

Wayne M. Porter  
Thunderbird Products  
Vice President of Sales

John L. Schultz  
Baker & Schultz, Inc.  
President

First National Bank of Portland

Barry J. Hudson  
Chairman of the Board

Robert G. Bell  
First National Bank of Portland  
President  
Chief Executive Officer

Frances Slocu

Jerry M. Ault  
Chairman of t  
Frances Slocu  
President  
Chief Executi

Richard T. Do  
Growth Capita  
President

John W. Forre  
Wabash Electr  
President

Robert R. Hal  
Halderman Far  
President

Arthur W. Jas  
B. Walter & C  
Executive Vic  
Walter Dimens  
President

Terry Agness  
Ford Meter Bo  
President  
Retired

Charles R. Ti  
Tiede, Metz &  
Attorney

Lafayette Ban

Robert J. Wee

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Nelson W. Heinrichs Centennial Packaging, Inc. Chairman of the Board Retired	Bradley K. Glentzer Portland Motor Parts Owner	Chairman of t
Jon H. Moll DeFur, Voran, Hanley, Radcliff & Reed Partner	Bonnie R. Maitlen, PhD Training & Development Specialist-Consultant	Tony S. Albre President Chief Executi
Joseph E. Wilson Muncie Power Products, Inc. Chairman of the Board Chief Executive Officer	Reda Theurer-Miller Youth Service Bureau of Jay County, Inc. Chief Executive Officer	Richard A. Bo Bennett, Boeh Of Counsel
SECRETARY TO THE BOARD	Greg A. Moser Moser Engineering President	Michael L. Co First Merchan President Chief Executi
Cynthia G. Holaday First Merchants Bank Assistant Vice President Executive Administrative Officer	Stephen R. Myron, MD Preferred Medical Providers President	Vernon N. Fur Self-employed
CHAIRMAN EMERITUS	Samuel P. Shoemaker John Jay Center for Learning Executive Director	W. L. Hancock Retired Gener PSI Energy, A
William P. Givens	Gary L. Whitenack Whitenack Farm & Supply Co. Farmer	Robert T. Jef Executive Vic Chief Financi Great Lakes C Retired
DIRECTORS EMERITI	First United Bank	Jeffrey L. Ke Stall & Kessl Co-owner
Clell W. Douglass	Daniel R. Eichhorn, DVM Chairman of the Board Veterinarian	Roy D. Meeks Nelmeeks, Inc President
Hurley C. Goodall	Ted S. Doles, MD Physician	Eric P. Meist GTE North, In Central Divis Retired
Betty J. Kendall	John M. Finnerty First United Bank President Chief Executive Officer	DIRECTORS EME
Hamer D. Shafer	David L. Keesling Farmer	Gordon G. Bee
Indiana Title Insurance Company, LLC	Mary Wisehart Phillips Wisehart & Wisehart Attorney	Joseph A. Bon
Michael L. Cox Chairman	Richard A. Russell Slick Engineering	Charles E. Ma
James W. Smith President		
James W. Trulock President		
R. Donn Roberts Director		
Harry J. Bailey Director		
Madison Community Bank	Union County National Bank	
James F. Ault Chairman of the Board	Norman M. Johnson Chairman of the Board	

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

General Motors Corporation Delco Remy Division General Manager Retired	Stein, Roe & Farnham Executive Vice President Retired
George R. Likens Vice Chairman of the Board Farmer	Norman Locke Union County National Bank President Chief Executive Officer
Michael L. Baker Madison Community Bank President Chief Executive Officer	Richard A. Daniels McCullough-Hyde Memorial Hospital President Chief Executive Officer
Edward L. Foggs Church of God Minister-at-Large Interchurch Relations	Gerald S. Paul Medreco, Inc. President
Donald E. Henderson Farm Bureau Insurance Retired	Jan S. Williams Williams, Keckler & Ratcliffe, LLC Certified Public Accountant
Jeffrey A. Jenness Church of God Executive Secretary & Treasurer Board of Pension	Merchants Trust Company  Stefan S. Anderson Chairman of the Board
Joseph R. Kilmer Attorney at Law	Michael L. Cox First Merchants Corporation President Chief Executive Officer
C. David Kleinhenn Kleinhenn Company President	Roger M. Arwood First Merchants Corporation Executive Vice President Chief Operating Officer
Herbert G. Likens Farmer	
G. Douglass Owens Attorney at Law	Jon H. Moll Defur, Voran, Hanley, Radcliff, & Reed Partner
Robert J. Pensec Carbide Grinding Company President	First Merchants Insurance Services, Inc.
Eric R. Retrum, MD Radiologist	Michael L. Cox Chairman First Merchants Corporation President Chief Executive Officer
Stephen D. Skaggs Perfecto Tool & Engineering Co., Inc. Vice President	
Curtis L. Stephenson Pendleton Insurance Company, Inc.	Dan M. VanTreese President Chief Executive Officer
The Randolph County Bank	Roger M. Arwood First Merchants Corporation Executive Vice President Chief Operating Officer
Michael D. Wickersham Chairman of the Board Wick's Pies, Inc. President	Larry R. Helms First Merchants Corporation

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Thomas E. Chalfant Farmer	Senior Vice President
W. Scott Hawkins Registered Representative Lincoln Financial Advisors	Mark K. Hardwick Treasurer First Merchants Corporation Senior Vice President Chief Financial Officer
Errol Klem Klem Golf, Inc. President	First Merchants Reinsurance Co., LTD
Martha A. Mathias Frank Miller Lumber Co., Inc. President Chief Executive Officer	Michael L. Cox Chairman First Merchants Corporation President Chief Executive Officer
James A. Meinerding The Randolph County Bank President Chief Executive Officer Trust Officer	Larry R. Helms Vice President Secretary First Merchants Corporation Senior Vice President
	Mark K. Hardwick Vice President Treasurer First Merchants Corporation Senior Vice President Chief Financial Officer

23

Executive Officers

First Merchants Corporation	Michael L. Cox President Chief Executive Officer	Roger M. Arwood Executive Vice President Chief Operating Officer
	Larry R. Helms Senior Vice President Administrative Services & General Counsel	Mark K. Hardwick Senior Vice President Chief Financial Officer

Senior Officers

First Merchants Corporation

Michael R. Elston First Vice President	Karen J. Evens Vice President	Pamela S. Haager Vice President
---	----------------------------------	------------------------------------

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Robert C. Rhoades First Vice President	J. Marty Filogamo Vice President	C. Ronald Hall Vice President
Brian A. Edwards Vice President	Stephan H. Fluhler Vice President	Sondra A. Kaselonis Vice President
Kimberly J. Ellington Vice President	Phillip W. Fortner Vice President	Jeffrey B. Lorentson Vice President
Mitzi K. Thomas Vice President	Carol A. Lambert Senior Staff Auditor	Jeffrey A. Whetstone Accounting Manager
First Merchants Bank	Merchants Trust Company	Decatur Bank & Trust Company
Jack L. Demaree President Chief Executive Officer	James L. Thrash President Chief Executive Officer	Dennis A. Bieberich President Chief Executive Officer
Thomas E. Buczek Senior Vice President	Karen T. Akin Senior Vice President	David R. Lengerich Vice President
Chris B. Parker First Vice President	Lawrence A. Anthrop Senior Vice President	Sharon K. Linder Vice President
Richard A. Byrd Vice President	William J. Bittermann, Jr. Senior Vice President	Rosalyn M. Neuenschwander Vice President
Merrill V. Clevenger Vice President	Mark A. Collison Senior Vice President	First National Bank of Portland
Paul A. Fish Vice President	David L. Forbes Senior Vice President	Robert G. Bell President Chief Executive Officer
Barry A. Grossman Vice President	Elke U. Baltimore Vice President	Richard L. Huffman Executive Vice President Chief Trust & Investment Officer
Patricia Hudson Vice President	J. Neal Barnum Vice President	
Julie M. Kern Vice President	Terry L. Blaker Vice President	Duane D. Sautbine Senior Vice President Lending
James A. Kerstiens Vice President	Brent P. Brandon Vice President	Theresa T. Bollenbacher Vice President Lending Operations
Susan R. Laverty Vice President	Richard L. Huffman Vice President	Janice E. Ferrell Vice President Deposit Operations Branch Administration
Stephen Moore Vice President	Charles La Bolt Vice President	
Jeffrey M. Parsons Vice President	John K. Mandeville Vice President	Carl F. Walker Vice President Lending
Denby R. Turner Vice President	Carol S. Merchand Vice President	
Thomas E. Wiley Vice President	Sharon L. Powell Vice President	First United Bank John M. Finnerty President
Teresa D. Willman	N. Jane Smith	Chief Executive Officer

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Vice President

Brad C. Wise  
Vice President

John A. Wood  
Vice President

Vice President

Douglas M. Wehrman  
Vice President

First Merchants  
Insurance Services

Dan M. Van Treese  
President  
Chief Executive Officer

Indiana Title  
Insurance Company

James Smith  
Co-President

James Trulock  
Co-President

Christopher J. Allen  
Executive Vice President

Jean E. Real  
Senior Vice President

Joyce D. Dick  
Senior Vice President

Marjorie E. Phillips  
Senior Vice President

Rebecca I. Black  
Senior Vice President

Sue E. Goodman  
Vice President

Brian A. Huff  
Vice President

Richard W. Warner  
Vice President

Madison Community Bank

Michael L. Baker  
President  
Chief Executive Officer

Michael E. Stephens

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Senior Vice President

Daniel D. Cobb  
Vice President

Richard K. Fulaytar  
Vice President

MaryAnn Gardner  
Vice President

Sherry Hazelbaker  
Vice President

Kirk A. Klabunde  
Vice President

John L. May  
Vice President

Gretchen D. Patterson  
Vice President

The Randolph County Bank

James A. Meinerding  
President  
Chief Executive Officer

Chad S. Guggenbiller  
Vice President

Brian a. Edwards  
Executive Vice President  
Cashier

Rick D. Tudor  
Vice President

Union County National Bank

Norman Locke  
President  
Chief Executive Officer

Diane M. Bolser  
Executive Vice President

Dale A. Cummins  
Executive Vice President

Kurt A. Kinzler  
Senior Vice President

Kyle D. Clark  
Vice President

Lee M. Elzemeyer  
Vice President

The greater part of progress is the desire to progress.

-- Seneca

[PHOTO OMITTED]

[LOGO] First Merchants Corporation  
your partners in success (R)

www.firstmerchants.com

=====

Financial Review

=====

FIVE-YEAR SUMMARY OF  
SELECTED FINANCIAL DATA 2

MANAGEMENT'S DISCUSSION & ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS 3

INDEPENDENT ACCOUNTANTS' REPORT 18

CONSOLIDATED  
FINANCIAL STATEMENTS 19

NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS 23

STOCKHOLDER INFORMATION 52

=====

1

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

=====

(in thousands, except share data) 2002 2001 20

=====

Operations (4)  
Net Interest Income



## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Fully Taxable Equivalent (FTE) Basis .....	\$ 96,599	\$ 66,806	\$ 58
Less Tax Equivalent Adjustment .....	3,676	2,445	2
	-----	-----	-----
Net Interest Income .....	92,923	64,361	55
Provision for Loan Losses .....	7,174	3,576	2
	-----	-----	-----
Net Interest Income			
After Provision for Loan Losses .....	85,749	60,785	53
Total Other Income .....	27,077	18,543	16
Total Other Expenses .....	71,009	45,195	40
	-----	-----	-----
Income Before Income Tax Expense .....	41,817	34,133	29
Income Tax Expense .....	13,981	11,924	9
	-----	-----	-----
Net Income .....	\$ 27,836	\$ 22,209	\$ 19
	=====	=====	=====
Per share data (1) (4)			
Basic Net Income .....	\$ 1.79	\$ 1.71	\$
Diluted Net Income .....	1.77	1.69	
Cash Dividends Paid (2) .....	.90	.88	
December 31 Book Value .....	16.00	13.46	1
December 31 Market Value (Bid Price) .....	22.75	22.87	2
Average balances (4)			
Total Assets .....	\$2,406,251	\$1,689,694	\$1,532
Total Loans .....	1,842,429	1,270,555	1,104
Total Deposits .....	1,857,053	1,331,631	1,209
Securities Sold Under Repurchase Agreements			
(long-term portion) .....	66,535	44,394	53
Total Federal Home Loan Bank Advances .....	155,387	103,941	80
Total Trust Preferred Securities .....	37,379		
Total Stockholders' Equity .....	237,575	166,232	141
Year-end balances (4)			
Total Assets .....	\$2,678,687	\$1,787,035	\$1,621
Total Loans .....	2,025,922	1,359,893	1,175
Total Deposits .....	2,036,688	1,421,251	1,288
Securities Sold Under Repurchase Agreements			
(long-term portion) .....	23,632	32,500	32
Total Federal Home Loan Bank Advances .....	184,677	103,499	93
Total Trust Preferred Securities .....	53,188		
Total Stockholders' Equity .....	261,129	179,128	156
Financial ratios (4)			
Return on Average Assets .....	1.16%	1.31%	
Return on Average Stockholders' Equity .....	11.72	13.36	1
Average Earning Assets to Total Assets .....	91.38	93.29	9
Allowance for Loan Losses as % of Total Loans .....	1.11	1.11	
Dividend Payout Ratio .....	50.85	52.07	5
Average Stockholders' Equity to Average Assets .....	9.87	9.84	
Tax Equivalent Yield on Earning Assets (3) .....	6.83	7.80	
Cost of Supporting Liabilities .....	2.44	3.56	
Net Interest Margin on Earning Assets .....	4.39	4.24	

(1) Restated for all stock dividends and stock splits.

(2) Dividends per share is for First Merchants Corporation only, not restated for pooling transactions.

(3) Average earning assets include the average balance of securities

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

classified as available for sale, computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.

- (4) Business combinations that affect the comparability of this information are discussed in Note 2 to the consolidated financial statements.

2

=====

### MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

=====

The Corporation's financial data has been restated for all mergers accounted for as pooling of interests.

#### FORWARD-LOOKING STATEMENTS

The Corporation from time to time includes forward-looking statements in its oral and written communication. The Corporation may include forward-looking statements in filings with the Securities and Exchange Commission, such as Form 10-K and Form 10-Q, in other written materials and in oral statements made by senior management to analysts, investors, representatives of the media and others. The Corporation intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and the Corporation is including this statement for purposes of these safe harbor provisions. Forward-looking statements can often be identified by the use of words like "estimate," "project," "intend," "anticipate," "expect" and similar expressions. These forward-looking statements include:

- \* statements of the Corporation's goals, intentions and expectations;
- \* statements regarding the Corporation's business plan and growth strategies;
- \* statements regarding the asset quality of the Corporation's loan and investment portfolios; and
- \* estimates of the Corporation's risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors which could affect the actual outcome of future events:

- \* fluctuations in market rates of interest and loan and deposit pricing, which could negatively affect the Corporation's net interest margin, asset valuations and expense expectations;
- \* adverse changes in the Indiana economy, which might affect the Corporation's business prospects and could cause credit-related losses and expenses;
- \* adverse developments in the Corporation's loan and investment portfolios;
- \* competitive factors in the banking industry, such as the trend

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

towards consolidation in the Corporation's market; and

- \* changes in the banking legislation or the regulatory requirements of federal and state agencies applicable to bank holding companies and banks like the Corporation's affiliate banks.

=====

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

=====

Because of these and other uncertainties, the Corporation's actual future results may be materially different from the results indicated by these forward-looking statements. In addition, the Corporation's past results of operations do not necessarily indicate its future results.

CRITICAL ACCOUNTING POLICIES

Certain policies are important to the portrayal of the Corporation's financial condition, since they require management to make difficult, complex or subjective judgements, some of which relate to matters that are inherently uncertain. Management believes that its critical accounting policies are those that involve the determination of the allowance for loan losses ("ALL").

The ALL is a significant estimate that can and does change based on management's assumptions about specific borrowers and applicable economic and environmental conditions, among other factors. The ALL is maintained to absorb losses inherent in the loan portfolio and is based on ongoing, quarterly assessments of the probable losses inherent in the loan portfolio. The ALL is increased by the provision for loan losses, which is charged against current operating results. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Corporation's methodology for assessing the appropriateness of the ALL consists of three key elements - the determination of the appropriate reserves for specifically identified loans, historical losses, and environmental or qualitative factors.

Specific allowances are established in those instances where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss may be incurred. The loans that are reviewed for specific allowances are generally those internally classified as substandard, doubtful or loss, including nonaccrual loans, loans in the process of foreclosure and certain loans past due 90 days or more and still accruing interest. Additionally, management also specifically reviews any other loan with a significant loss exposure.

The Corporation's five-year average historical loss experience is used to estimate an appropriate allowance for those loans not individually reviewed. The historical loss experience is determined for each type of loan in the portfolio.

There are certain inherent risks in the Corporation's loan portfolio; accordingly, the Corporation includes certain environmental or qualitative factors in its determination of the adequacy of the allowance for loan losses. These factors include national and local economic conditions that could have an impact of the credit quality of the loan portfolio, lending policies and procedures, portfolio size and composition, delinquency and non-performing loan

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

trends, lending management and staff, loan review systems and procedures, concentration of credit, among other factors. The evaluation of the inherent loss with respect to these factors is subject to a higher degree of uncertainty because they are not identified with specific credits.

4

=====

### MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

=====

#### RESULTS OF OPERATIONS

Net income for the year 2002 reached \$27,836,000, up from \$22,209,000 in 2001. The \$5,627,000 increase is attributable to several factors, including the April 1, 2002 acquisition of Lafayette Bank and Trust Company ("Lafayette"), improved net interest margin and the elimination of goodwill amortization. However, these factors were mitigated by increased provision for loan losses and increased other expenses. These factors and others are discussed within the respective sections of Management's Discussion & Analysis of Financial Condition and Results of Operations. Diluted earnings per share totaled \$1.77, a 4.7% increase over \$1.69 reported for 2001. In 2002, First Merchants Corporation ("Corporation") recorded the twenty-seventh consecutive year of improvement in net income on both an aggregate and per share basis.

Net income for the year 2001 reached \$22,209,000 up from \$19,940,000 in 2000. The \$2,269,000 increase is attributable to several factors, including the July 1, 2001 acquisition of Frances Slocum Bank and Trust Company and improved net interest margin; however, these factors were mitigated by increased other expenses. These factors and others are discussed within the respective sections of Management's Discussion & Analysis of Financial Condition and Results of Operations. Diluted earnings per share totaled \$1.69, a 7.0% increase over \$1.58 reported for 2000.

Return on equity was 11.72 percent in 2002, as compared to the 2001 and 2000 figures of 13.36 percent and 14.10 percent.

Return on assets was 1.16 percent in 2002, 1.31 percent in 2001 and 1.30 percent in 2000.

The declines in return on equity and return on assets during 2002 are primarily due to increased provision for loan losses, which is discussed in the Asset Quality/Provision for Loan Losses section of Management's Discussion & Analysis of Financial Condition and Results of Operations.

#### CAPITAL

The Corporation's capital strength continues to exceed regulatory minimums and management believes that its capital levels continue to be a distinct advantage in the competitive environment in which the Corporation operates.

Tier I capital consists primarily of common stockholders' equity and trust preferred securities, less nonqualifying intangible assets and unrealized net securities gains. The Corporation's Tier I capital to average assets ratio was 7.92 percent and 8.7 percent at December 31, 2002 and 2001, respectively. In addition, at December 31, 2002, the Corporation had a Tier I risk-based capital ratio of 10.06 percent and total risk-based capital ratio of 11.17 percent.

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 percent and a total risk-based capital ratio of 8.0 percent.

5

=====

### MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

=====

#### CAPITAL continued

The Corporation has an employee stock purchase plan and an employee stock option plan. Activity under these plans is described in Note 16 to the Consolidated Financial Statements. The transactions under these plans have not had a material effect on the Corporation's capital position.

#### ASSET QUALITY/PROVISION FOR LOAN LOSSES

Asset quality has been a major factor in the Corporation's ability to generate consistent profit improvement. The allowance for loan losses is maintained through the provision for loan losses, which is a charge against earnings. The amount provided for loan losses and the determination of the adequacy of the allowance are based on a continuous review of the loan portfolio, including an internally administered loan "watch" list and an independent loan review provided by an outside accounting firm. The evaluation takes into consideration identified credit problems, as well as the possibility of losses inherent in the loan portfolio that are not specifically identified. (See Critical Accounting Policies)

At December 31, 2002, non-performing loans totaled \$23,318,000, an increase of \$8,652,000, as noted in the table on the following page. This increase was primarily due to the addition of \$8,122,000 in non-accrual loans and past due 90 days or more other than non-accruing loans related to the acquisition of Lafayette and the general downturn in the economy.

At December 31, 2002, impaired loans totaled \$44,351,000, an increase of \$23,190,000 from year end 2001. The increase was attributable to the addition of impaired loans totaling \$14,677,000, related to the acquisition of Lafayette and several borrowers whose loans are considered impaired at December 31, 2002, but were not impaired at December 31, 2001. At December 31, 2002, an allowance for losses was not deemed necessary for impaired loans totaling \$27,450,000, but an allowance of \$7,299,000 was recorded for the remaining balance of impaired loans of \$16,901,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for 2002 was \$49,663,000.

At December 31, 2002, the allowance for loan losses was \$22,417,000, an increase of \$7,276,000 from year end 2001. As a percent of loans, the allowance was 1.11 percent at both December 31, 2002 and 2001.

The provision for loan losses in 2002 was \$7,174,000, an increase of \$3,598,000 from \$3,576,000 in 2001. The Corporation's adequacy of the allowance for loan losses reflects increased non-performing loans, increased specific reserves and increased impaired loans, resulting in increased provision expense. Of the \$3.6 million increase, approximately \$900,000 is attributable to the provision for loan losses for Lafayette subsequent to its acquisition, with the remaining based on the regular ongoing evaluation of the loan portfolios of the Corporation's bank subsidiaries. Current non-performing and impaired loan

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

balances indicate that some decline in loan asset quality has occurred, which management believes is a result of current economic conditions.

6

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table summarizes the non-accrual, contractually past due 90 days or more other than non-accruing and restructured loans for the Corporation.

(dollars in thousands)	December 31,	
	2002	2001
Non-accrual loans .....	\$14,134	\$ 6,327
Loans contractually past due 90 days or more other than non-accruing .....	6,676	4,828
Restructured loans .....	2,508	3,511
Total .....	\$23,318	\$14,666

The table below presents loan loss experience for the years indicated.

(Dollars in Thousands)	2002
Allowance for loan losses:	
Balance at January 1 .....	\$15,141
Chargeoffs .....	8,113
Recoveries .....	1,313
Net chargeoffs .....	6,800
Provision for loan losses .....	7,174
Allowance acquired in acquisitions.....	6,902
Balance at December 31 .....	\$22,417
Ratio of net chargeoffs during the period to average loans outstanding during the period .....	.37%

LIQUIDITY

Liquidity management is the process by which the Corporation ensures that adequate liquid funds are available for the Corporation and its subsidiaries. These funds are necessary in order for the Corporation and its subsidiaries to

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

meet financial commitments on a timely basis. These commitments include withdrawals by depositors, funding credit obligations to borrowers, paying dividends to shareholders, paying operating expenses, funding capital expenditures, and maintaining deposit reserve requirements. Liquidity is monitored and closely managed by the asset/liability committees at each subsidiary and by the Corporation's asset/liability committee.

The liquidity of the Corporation is dependent upon the receipt of dividends from its bank subsidiaries, which are subject to certain regulatory limitations as explained in Note 14 to the consolidated financial statements, and access to other funding sources. Liquidity of the Corporation's bank subsidiaries is derived primarily from core deposit growth, principal payments received on loans, the sale and maturity of investment securities, net cash provided by operating activities, and access to other funding sources. The most stable source of liability-funded liquidity for both the long-term and short-term is deposit growth and retention in the core deposit base. In addition, the Corporation utilizes advances from the Federal Home Loan Bank ("FHLB") as a funding source. At December 31, 2002, total borrowings from the FHLB were \$184,677,000. The Corporation's bank subsidiaries have pledged certain mortgage loans and certain investments to the FHLB. The total available remaining borrowing capacity from the FHLB at December 31, 2002, was \$221,204,000. The principal source of asset-funded liquidity is investment securities classified as available-for-sale, the market values of which totaled

7

=====
MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
=====

LIQUIDITY continued

\$332,925,000 at December 31, 2002, an increase of \$101,257,000 or 43.7% over 2001. Securities classified as held-to-maturity that are maturing within a short period of time can also be a source of liquidity. Securities classified as held-to-maturity and that are maturing in one year or less totaled \$1,286,000 at December 31, 2002. In addition, other types of assets-such as cash and due from banks, federal funds sold and securities purchased under agreements to resell, and loans and interest-bearing deposits with other banks maturing within one year-are sources of liquidity.

In the normal course of business, the Corporation is a party to a number of other off-balance sheet activities that contain credit, market and operational risk that are not reflected in whole or in part in the Corporation's consolidated financial statements. Such activities include: traditional off-balance sheet credit-related financial instruments, commitments under operating leases and long-term debt.

The Corporation provides customers with off-balance sheet credit support through loan commitments and standby letters of credit. Summarized credit-related financial instruments at December 31, 2002 are as follows:

(Dollars in thousands) At December 31, 2002
=====

Amounts of commitments:

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Loan commitments to extend credit .....	\$	312,146
Standby letters of credit .....		18,124
		-----
	\$	330,270
		=====

Since many of the commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

In addition to owned banking facilities, the Corporation has entered into a number of long-term leasing arrangements to support the ongoing activities of the Corporation. The required payments under such commitments and long-term debt at December 31, 2002 are as follows:

(Dollars in thousands)	2002	2003	2004	2005	2006	2007 and after	
Operating leases .....	\$ 967	\$ 795	\$ 533	\$ 567	\$ 345	\$ 323	\$
Trust preferred securities	53,188	53,188					
Long-term debt .....	81,588	32,382	27,750	20,403	10,495	101,653	2
	-----	-----	-----	-----	-----	-----	-----
Total .....	\$ 82,555	\$ 33,177	\$ 28,283	\$ 20,970	\$ 10,840	\$155,164	\$3
	=====	=====	=====	=====	=====	=====	=====

### INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK

Asset/Liability Management has been an important factor in the Corporation's ability to record consistent earnings growth through periods of interest rate volatility and product deregulation. Management and the Board of Directors monitor the Corporation's liquidity and interest sensitivity positions at regular meetings to review how changes in interest rates may affect earnings. Decisions regarding investment and the pricing of loan

8

### MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK continued

and deposit products are made after analysis of reports designed to measure liquidity, rate sensitivity, the Corporation's exposure to changes in net interest income given various rate scenarios and the economic and competitive environments.

It is the objective of the Corporation to monitor and manage risk exposure to net interest income caused by changes in interest rates. It is the goal of the Corporation's Asset/Liability function to provide optimum and stable net interest income. To accomplish this, management uses two asset liability tools. GAP/Interest Rate Sensitivity Reports and Net Interest Income Simulation Modeling are both constructed, presented and monitored quarterly.



Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Management believes that the Corporation's liquidity and interest sensitivity position at December 31, 2002, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk. The following table presents the Corporation's interest rate sensitivity analysis as of December 31, 2002.

INTEREST RATE SENSITIVITY ANALYSIS

(dollars in thousands)

At December

	1-180 DAYS	181-365 DAYS	1-5
<b>Rate-Sensitive Assets:</b>			
Federal funds sold and interest-bearing deposits .....	\$ 34,968		
Investment securities .....	27,765	\$ 12,136	\$ 8
Loans .....	850,254	195,160	66
Federal Reserve and Federal Home Loan Bank stock .....	11,409		
<b>Total rate-sensitive assets .....</b>	<b>924,396</b>	<b>207,296</b>	<b>74</b>
<b>Rate-Sensitive Liabilities:</b>			
Interest-bearing deposits .....	723,470	494,076	49
Securities sold under repurchase agreements .....	65,962		2
Other short-term borrowings .....	10,168		
Federal Home Loan Bank advances .....	7,807	7,819	6
Trust preferred securities .....			
Other borrowed funds .....	19,300		
<b>Total rate-sensitive liabilities .....</b>	<b>826,707</b>	<b>501,895</b>	<b>58</b>
Interest rate sensitivity gap by period .....	\$ 97,689	\$ (294,599)	\$ 16
Cumulative rate sensitivity gap .....	97,689	(196,910)	(3)
Cumulative rate sensitivity gap ratio			
at December 31, 2002 .....	111.8%	85.2%	
at December 31, 2001 .....	135.4%	97.6%	

The Corporation had a cumulative negative gap of \$196,910,000 in the one-year horizon at December 31, 2002, just over 7.4 percent of total assets. Net interest income at financial institutions with negative gaps tends to increase when rates decrease and decrease as interest rates increase.

The Corporation places its greatest credence in net interest income simulation modeling. The GAP/Interest Rate Sensitivity Report is believed by the Corporation's management to have two major shortfalls. The GAP/Interest Rate Sensitivity Report fails to precisely gauge how often an interest rate sensitive product reprices, nor is it able to measure the magnitude of potential future rate movements.

=====

INTEREST RATE SENSITIVITY ANALYSIS continued

Net interest income simulation modeling, or earnings-at-risk, measures the sensitivity of net interest income to various interest rate movements. The Corporation's asset liability process monitors simulated net interest income under three separate interest rate scenarios; base, rising and falling. Estimated net interest income for each scenario is calculated over a 12-month horizon. The immediate and parallel changes to the base case scenario used in the model are presented below. The interest rate scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings of the Corporation.

The base scenario is highly dependent on numerous assumptions embedded in the model, including assumptions related to future interest rates. While the base sensitivity analysis incorporates management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. For mortgage-related assets, the base simulation model captures the expected prepayment behavior under changing interest rate environments. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity products, e.g., savings, money market, NOW and demand deposits reflect management's best estimate of expected future behavior.

The comparative rising and falling scenarios for the period ended December 31, 2003 assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management in the base simulation for the period ended December 31, 2003 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(50) Basis Points
Federal Funds	200	(50)
One-Year T-Bill	200	(20)
Two-Year T-Bill	200	(59)
Interest Checking	100	--
MMIA Savings	100	--
First Flex	100	(25)
CD's	200	(53)
FHLB Advances	200	(66)

Results for the base, rising and falling interest rate scenarios are listed below, based upon the Corporation's rate sensitive assets at December 31, 2002. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	BASE	RISING	FALLING
Net Interest Income (dollars in thousands)	\$105,138	\$113,855	\$ 98,793
Variance from base		\$ 8,717	\$ (6,345)
Percent of change from base		8.29%	(6.03)%

=====

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

=====

EARNING ASSETS

Earning assets increased \$767.4 million during 2002. The table below reflects the earning asset mix for the years 2002 and 2001 (at December 31).

Loans grew by \$666.0 million while investment securities increased by \$101.7 million. The acquisition of Lafayette combined with increased loan demand resulted in a 49.0% increase in the Corporation's loan portfolio. In addition, the increase in investment securities was primarily a result of the acquisition of Lafayette.

EARNING ASSETS

(dollars in millions)

	December 31,	
	2002	2001
Federal funds sold and interest-bearing time deposits	\$ 35.0	\$ 38.2
Securities available for sale .....	332.9	231.7
Securities held to maturity .....	9.1	8.7
Loans .....	2,025.9	1,359.9
Federal Reserve and Federal Home Loan Bank stock ....	11.4	8.4
	-----	-----
Total .....	\$2,414.3	\$1,646.9
	=====	=====

DEPOSITS AND BORROWINGS

The table below reflects the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements, U.S. Treasury demand notes, Federal Home Loan Bank advances, trust preferred securities and other borrowed funds) based on year-end levels at December 31, 2002 and 2001.

As of December 31

(dollars in millions)

	DEPOSITS	SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	OTHER SHORT-TERM BORROWINGS	FEDERAL HOME LOAN BANK ADVANCES
2002	\$2,036.7	\$89.6	\$10.2	\$184.7
2001	1,421.3	45.6	16.8	103.5

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

OPERATIONS

NET INTEREST INCOME

Net interest income is the primary source of the Corporation's earnings. It is a function of net interest margin and the level of average earning assets. The table below reflects the Corporation's asset yields, interest expense, and net interest income as a percent of average earning assets for the three-year period ending in 2002.

In 2002, asset yields decreased 97 basis points (FTE) and interest cost decreased 112 basis points, resulting in a 15 basis point (FTE) increase in net interest income. The Corporation aggressively repriced deposits downward in relation to market interest rates in an effort to mitigate declining asset yields resulting from a 4.5% decrease in the prime rate in 2001 and an additional 75 basis point decline in 2002.

(dollars in thousands)

	INTEREST INCOME (FTE) as a Percent of Average Earning Assets	INTEREST EXPENSE as a Percent of Average Earning Assets	NET INTEREST INCOME (FTE) as a Percent of Average Earning Assets	AVERAGE EARNING ASSETS	NET IN Full Equi
2002	6.83%	2.44%	4.39%	\$2,198,943	\$
2001	7.80	3.56	4.24	1,576,334	
2000	8.19	4.16	4.03	1,453,795	

Average earning assets include the average balance of securities classified as available for sale, computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.

12

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OTHER INCOME

The Corporation has placed emphasis on the growth of non-interest income in recent years by offering a wide range of fee-based services. Fee schedules are regularly reviewed by a pricing committee to ensure that the products and services offered by the Corporation are priced to be competitive and profitable.

Other income in 2002 amounted to \$27,077,000 or 46.0 percent higher than in 2001. The increase of \$8,534,000 is primarily attributable to the following factors:

1. Service charges on deposit accounts increased \$3,601,000 or 62.9 percent

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

due to increased number of accounts, price adjustments and approximately \$3,105,000 of additional service charge income related to the April 1, 2002 acquisition of Lafayette.

2. Net realized gains on sales of available-for-sale securities totaled \$739,000 in 2002, while net realized losses on sales of available-for-sale securities totaled \$(200,000) during 2001.
3. Revenues from fiduciary activities increased \$829,000 or 15.3 percent due primarily to additional fees received related to the acquisition of Lafayette.
4. The Corporation sold its purchase money order business in September of 2002, resulting in a net gain on sale of \$514,000.
5. Abstract, title insurance and other related income increased \$910,000 in 2002, related to the January 1, 2002 acquisition of Delaware County Abstract Company, Inc. and Beebe & Smith Title Insurance Company, Inc.
6. Gains on sale of mortgage loans included in other income increase by \$481,000, or 39.1 percent, due to increased mortgage volume. In addition, decreasing mortgage loan rates caused an increase in refinancing volume, which facilitated an increase in loan sales activity.

Other income in 2001 amounted to \$18,543,000 or 11.5 percent higher than in 2000. The increase of \$1,909,000 is primarily attributable to the following factors:

1. Service charges on deposit accounts increased \$953,000, or 20.0 percent due to increased number of accounts and price adjustments.
2. Gains on sale of mortgage loans included in other income increased by \$611,000, or 97.9 percent, due to increased mortgage volume. In addition, decreasing mortgage loan interest rates caused an increase in refinancing volume, which facilitated an increase in loan sales activity.

13

=====

### MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

=====

#### OTHER EXPENSES

Other expenses represent non-interest operating expenses of the Corporation. Other expenses in 2002 amounted to \$71,009,000, an increase of 57.1 percent from the prior year, or \$25,814,000.

The following factors account for most of the increase:

1. Salaries and benefit expense grew \$14,439,000, or 58.4 percent, due to normal salary increases, staff additions and additional salary and benefit cost of \$9,785,000 related to the April 1, 2002 acquisition of Lafayette.
2. Telephone expenses increased by \$1,497,000 or 140.9%, due to additional telephone costs related to the acquisition of Lafayette. In addition,

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

increased service contract charges related to greater usage of telephone lines, contributed to this increase.

3. Equipment expenses increased by \$2,188,000 or 48.4%, primarily related to the April 1, 2002 acquisition of Lafayette.
4. Core deposit intangible amortization increased by \$907,000, due to utilization of the purchase method of accounting for the Corporation related to the April 1, 2002 acquisition of Lafayette.
5. Data processing fees increased by \$1,421,000, or 63.4 percent, primarily due to increases in processing expenses related to greater usage of debit/ATM cards by customers and increases in loans originated and processed during 2002.
6. Net occupancy expenses increased by \$903,000 or 33.1%, primarily related to the April 1, 2002 acquisition of Lafayette.

Other expenses amounted to \$45,195,000 in 2001, an increase of 12.8 percent from the prior year, or \$5,112,000.

Three major areas account for most of the increase:

1. Salary and benefit expenses grew by \$3,293,000, or 15.4 percent, due to normal salary increases, staff additions and additional salary cost related to the acquisition of Frances Slocum Bank and Trust Company.
2. Data processing fees increased by \$507,000, or 29.2 percent, primarily due to increases in processing expenses related to greater usage of debit/ATM cards by customers and increases in loans originated and processed during the year.
3. Goodwill and core deposit amortization increased by \$786,000, or 87.7 percent, due to utilization of the purchase method of accounting for the Corporation's June 1, 2000 acquisition of Decatur Bank and Trust Company and July 1, 2001 acquisition of Frances Slocum Bank and Trust Company.

14

=====

### MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

=====

#### INCOME TAXES

The increase in 2002 tax expense of \$2,057,000 is attributable primarily to the acquisition of Lafayette and an increase in pre-tax income of \$5,627,000. The increase in 2001 tax expenses of \$1,956,000 is attributable primarily to a \$4,225,000 increase in net pre-tax income. In addition, the effective tax rates for the periods ending December 31, 2002, 2001 and 2000 were 33.4%, 34.9% and 33.3%, respectively. The 150 basis point decrease is primarily a result of increases in tax exempt interest income and reduced state taxes, resulting from the effect of state income apportionment.

#### ACCOUNTING MATTERS

#### ACCOUNTING FOR A BUSINESS COMBINATION

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Statement of Financial Accounting Standards ("SFAS") No. 141 requires that most all business combinations should be accounted for using the purchase method of accounting; use of the pooling method is prohibited.

This Statement requires that goodwill be initially recognized as an asset in the financial statement and measured as the excess of the cost of an acquired entity over the net of the amounts assigned to identifiable assets acquired and liabilities assumed. In addition, SFAS No. 141 requires all other intangibles, such as core deposit intangibles for a financial institution, to be identified.

The provisions of Statement No. 141 were effective for any business combination that was initiated after June 30, 2001.

### ACCOUNTING FOR GOODWILL

Under the provisions of SFAS No. 142, goodwill should not be amortized but should be tested for impairment at the reporting unit level. Impairment test of goodwill should be done on an annual basis unless events or circumstances indicate impairment has occurred in the interim period. The annual impairment test can be performed at any time during the year as long as the measurement date is used consistently from year to year.

Impairment testing is a two step process, as outlined within the statement. If the fair value of goodwill is less than its carrying value, then the goodwill is deemed impaired and a loss recognized.

15

=====

### MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

=====

The Corporation adopted these new accounting rules on January 1, 2002. As a result, the Corporation will not amortize the goodwill it has recorded prior to June 30, 2001, but will make an annual assessment of any impairment in goodwill and, if necessary, recognize an impairment loss at that time. The Corporation had goodwill of \$87,640,000 and \$26,081,000 at December 31, 2002 and 2001, respectively. Had Statement No. 142 been applied retroactively, the reported 2001 and 2000 net income would have increased by \$1,070,000 and \$724,000, respectively. At December 31, 2002, no impairment loss was identified.

### ACQUISITIONS OF CERTAIN FINANCIAL INSTITUTIONS

SFAS No. 147 became effective October 1, 2002. This standard requires any intangible assets previously recorded under SFAS No. 72 to be included in the scope of SFAS No.s 141 and 142. This standard has no immediate impact on the financial position and results of operations of the Corporation, as the Corporation did not have any recorded unidentified intangible assets or goodwill that had continued to be amortized.

### ACCOUNTING FOR STOCK-BASED COMPENSATION-TRANSITION AND DISCLOSURE-AN AMENDMENT OF FASB STATEMENT NO. 123

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148. SFAS No. 148 amends FASB Statement No. 123, "Accounting for Stock Based Compensation" ("SFAS 123") and provides alternative methods for accounting for a

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

change by registrants to the fair value method of accounting for stock-based compensation. Additionally, SFAS No. 148 amends the disclosure requirements of SFAS 123 to require disclosure in the significant accounting policy footnote of both annual and interim financial statements of the method of accounting for stock-based compensation and the related pro-forma disclosures when the intrinsic value method continues to be used. The statement is effective for fiscal years ending after December 15, 2002. Adoption of this statement did not have a material effect on the Corporation's financial position or results of operations.

16

=====
MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
=====

INFLATION

Changing prices of goods, services and capital affect the financial position of every business enterprise. The level of market interest rates and the price of funds loaned or borrowed fluctuate due to changes in the rate of inflation and various other factors, including government monetary policy.

Fluctuating interest rates affect the Corporation's net interest income, loan volume and other operating expenses, such as employee salaries and benefits, reflecting the effects of escalating prices, as well as increased levels of operations and other factors. As the inflation rate increases, the purchasing power of the dollar decreases. Those holding fixed-rate monetary assets incur a loss, while those holding fixed-rate monetary liabilities enjoy a gain. The nature of a financial holding company's operations is such that there will generally be an excess of monetary assets over monetary liabilities, and, thus, a financial holding company will tend to suffer from an increase in the rate of inflation and benefit from a decrease.

17

=====
INDEPENDENT ACCOUNTANTS' REPORT
=====

To the Stockholders and Board of Directors
First Merchants Corporation
Muncie, Indiana

We have audited the accompanying consolidated balance sheets of First Merchants Corporation as of December 31, 2002 and 2001, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted



Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Merchants Corporation as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 7, the Corporation changed its method of accounting for goodwill in 2002.

BKD, LLP

Indianapolis, Indiana  
January 17, 2003

18

=====

CONSOLIDATED FINANCIAL STATEMENTS

=====

CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

=====

Assets

Cash and due from banks .....	\$
Federal funds sold .....	
Cash and cash equivalents .....	
Interest-bearing time deposits .....	
Investment securities	
Available for sale .....	
Held to maturity (fair value of \$9,585 and \$8,762) .....	
Total investment securities .....	
Mortgage loans held for sale .....	
Loans, net of allowance for loan losses of \$22,417 and \$15,141.....	
Premises and equipment .....	
Federal Reserve and Federal Home Loan Bank stock .....	
Interest receivable .....	
Core deposit intangibles .....	
Goodwill.....	
Cash surrender value of life insurance.....	
Other assets .....	

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Total assets .....	
Liabilities	
Deposits	
Noninterest-bearing .....	
Interest-bearing .....	
Total deposits .....	
Borrowings .....	
Interest payable .....	
Other liabilities .....	
Total liabilities .....	

COMMITMENTS AND CONTINGENT LIABILITIES

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 -- 16,322,748 and 13,303,822 shares .....	
Additional paid-in capital .....	
Retained earnings .....	
Accumulated other comprehensive income .....	
Total stockholders' equity .....	
Total liabilities and stockholders' equity .....	

See notes to consolidated financial statements.

19

=====

CONSOLIDATED FINANCIAL STATEMENTS

=====

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	2002
Interest income	
Loans receivable	
Taxable .....	\$129,279
Tax exempt .....	638
Investment securities	
Taxable .....	9,086
Tax exempt .....	6,190

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Federal funds sold .....	557
Deposits with financial institutions .....	197
Federal Reserve and Federal Home Loan Bank stock .....	735
	-----
Total interest income .....	146,682
	-----
Interest expense	
Deposits .....	39,700
Securities sold under repurchase agreements .....	2,060
Federal Home Loan Bank advances .....	8,166
Trust preferred securities .....	3,324
Other borrowings .....	509
	-----
Total interest expense .....	53,759
	-----
Net interest income .....	92,923
Provision for loan losses .....	7,174
	-----
Net interest income after provision for loan losses .....	85,749
	-----
Other income	
Fiduciary activities .....	6,258
Service charges on deposit accounts .....	9,330
Other customer fees .....	3,918
Net realized gains (losses) on sales of available-for-sale securities .....	739
Commission income .....	2,203
Other income .....	4,629
	-----
Total other income .....	27,077
	-----
Other expenses	
Salaries and employee benefits .....	39,150
Net occupancy expenses .....	3,632
Equipment expenses .....	6,709
Marketing expenses.....	1,495
Outside data processing fees .....	3,664
Printing and office supplies .....	1,597
Goodwill and core deposit amortization.....	2,589
Other expenses .....	12,173
	-----
Total other expenses .....	71,009
	-----
Income before income tax .....	41,817
Income tax expense .....	13,981
	-----
Net income .....	\$ 27,836
	=====
Net income per share:	
Basic .....	\$ 1.79
Diluted .....	1.77

See notes to consolidated financial statements.

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

=====

CONSOLIDATED FINANCIAL STATEMENTS

=====

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31,  
(in thousands)

	20
Net income .....	\$ 27,
Other comprehensive income, net of tax:	
Unrealized gains on securities available for sale:	
Unrealized holding gains arising during the period, net of income tax expense of \$2,426, \$1,848, \$2,610.....	3,
Less: Reclassification adjustment for gains (losses) included in net income, net of income tax (expense) benefit of \$(296), \$80, \$43 .....	
Unrealized loss on pension minimum funding liability:	
Unrealized loss arising during the period, net of income tax benefit of \$879 .....	(1,
	1,
COMPREHENSIVE INCOME	\$ 29,

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAI EARNI
	SHARES	AMOUNT		
Balances, January 1, 2000 .....	10,936,617	\$ 1,367	\$ 25,481	\$ 103,
Net income for 2000.....				19,
Cash dividends (\$.82 per share) .....				(10,
Other comprehensive income, net of tax .....				
Stock issued under employee benefit plans ...	26,778	3	478	
Stock issued under dividend reinvestment and stock purchase plan .....	35,611	5	806	
Stock options exercised .....	33,906	4	506	
Stock redeemed .....	(292,000)	(37)	(6,670)	
Issuance of stock related to acquisition.....	870,957	109	21,068	
Cash paid in lieu of fractional shares.....	(137)		(4)	
Balances, December 31, 2000 .....	11,611,732	1,451	41,665	113,
Net income for 2001.....				22,
Cash dividends (\$.88 per share).....				(11,
Other comprehensive income, net of tax .....				
Stock issued under employee benefit plans ...	28,466	4	500	
Stock issued under dividend reinvestment				

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

and stock purchase plan .....	35,348	4	799	
Stock options exercised .....	19,627	2	223	
Stock redeemed .....	(306,966)	(38)	(6,985)	
Issuance of stock related to acquisition....	677,972	85	14,516	
Five percent (5%) stock dividend.....	604,128	76	(76)	
Cash paid in lieu of fractional shares.....				
	-----	-----	-----	-----
Balances, December 31, 2001	12,670,307	1,584	50,642	124,
Net income for 2002.....				27,
Cash dividends (\$.90 per share).....				(13,
Other comprehensive income, net of tax .....				
Stock issued under employee benefit plans ...	35,613	4	654	
Stock issued under dividend reinvestment				
and stock purchase plan .....	28,487	5	946	
Stock options exercised .....	49,689	6	488	
Stock redeemed .....	(148,405)	(20)	(4,313)	
Issuance of stock related to acquisitions....	2,912,869	364	68,183	
Five percent (5%) stock dividend.....	774,188	97	(97)	
Cash paid in lieu of fractional shares.....				
	-----	-----	-----	-----
Balances, December 31, 2002	16,322,748	\$ 2,040	\$116,503	\$ 138,
	=====	=====	=====	=====

See notes to consolidated financial statements.

21

=====

CONSOLIDATED FINANCIAL STATEMENTS

=====

CONSOLIDATED STATEMENTS OF CASH FLOWS

=====

(in thousands, except share data)

2002

=====

Operating activities:

Net income .....	\$ 27,836
Adjustments to reconcile net income to	
net cash provided by operating activities:	
Provision for loan losses .....	7,174
Depreciation .....	4,273
Amortization of goodwill and intangibles .....	2,444
Deferred income tax .....	(503)
Securities amortization, net .....	573
Securities losses (gains), net .....	(739)
Loss (gain) on sale of premises and equipment .....	(7)
Mortgage loans originated for sale .....	(140,584)
Proceeds from sales of mortgage loans .....	126,905
Net change in	
Interest receivable .....	763
Interest payable .....	(1,318)
Other adjustments .....	(9,122)
	-----

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Net cash provided by operating activities .....	17,695
	-----
Investing activities:	
Net change in interest-bearing deposits .....	10,729
Purchases of	
Securities available for sale .....	(182,511)
Securities held to maturity .....	
Proceeds from maturities of	
Securities available for sale .....	164,273
Securities held to maturity .....	4,307
Proceeds from sales of	
Securities available for sale .....	21,363
Net change in loans .....	(100,650)
Purchase of Federal Home Loan Bank stock .....	(715)
Purchases of premises and equipment .....	(4,854)
Proceeds from sale of fixed assets .....	75
Net cash received (paid) in acquisition.....	(12,532)
Other investing activities .....	
	-----
Net cash provided (used) by investing activities .....	(100,515)
	-----
Financing activities:	
Net change in	
Demand and savings deposits .....	34,818
Certificates of deposit and other time deposits .....	(26,662)
Repurchase agreements and other borrowings .....	7,893
Federal Home Loan Bank advances .....	77,900
Repayment of Federal Home Loan Bank advances .....	(32,047)
Trust preferred securities.....	53,188
Cash dividends .....	(13,995)
Stock issued under employee benefit plans .....	658
Stock issued under dividend reinvestment	
and stock purchase plan .....	951
Stock options exercised .....	494
Stock redeemed .....	(4,333)
Cash paid in lieu of issuing fractional shares .....	(35)
	-----
Net cash provided (used) by financing activities .....	98,830
	-----
Net change in cash and cash equivalents .....	16,010
Cash and cash equivalents, beginning of year .....	103,028
	-----
Cash and cash equivalents, end of year .....	\$ 119,038
	=====
Additional cash flows information:	
Interest paid .....	\$ 53,228
Income tax paid .....	14,313

See notes to consolidated financial statements.

22

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of First Merchants Corporation ("Corporation"), and its wholly owned subsidiaries, First Merchants Bank, N.A. ("First Merchants"), Madison Community Bank ("Madison"), First United Bank ("First United"), The Randolph County Bank ("Randolph County"), Union County National Bank ("Union National"), First National Bank ("First National"), Decatur Bank and Trust Company ("Decatur"), Frances Slocum Bank & Trust Company ("Frances Slocum"), and Lafayette Bank and Trust Company ("Lafayette"), (collectively the "Banks"), First Merchants Insurance Services, Inc. ("FMIS"), First Merchants Reinsurance Company ("FMRC"), Indiana Title Insurance Company ("ITIC"), First Merchants Capital Trust I ("FMC Trust I"), First Merchants Capital Trust II ("FMC Trust II"), and First Merchants Capital Trust III ("FMC Trust III"), conform to generally accepted accounting principles and reporting practices followed by the banking industry. The more significant of the policies are described below.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Corporation is a financial holding company whose principal activity is the ownership and management of the Banks and operates in a single significant business segment. First Merchants, Union National and First National operate under national bank charters and provide full banking services, including trust services. As national banks, First Merchants, First National and Union National are subject to the regulation of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation ("FDIC"). Madison, First United, Randolph County, Decatur, Frances Slocum and Lafayette operate under state bank charters and provide full banking services, including trust services. As state banks, Madison, First United, Randolph County, Decatur, Frances Slocum and Lafayette are subject to the regulation of the Department of Financial Institutions, State of Indiana, and the FDIC.

The Banks generate commercial, mortgage, and consumer loans and receive deposits from customers located primarily in north-central and east-central Indiana and Butler County, Ohio. The Banks' loans are generally secured by specific items of collateral, including real property, consumer assets and business assets. Although the Banks have a diversified loan portfolio, a substantial portion of their debtors' ability to honor their contracts is dependent upon economic conditions in the automotive and agricultural industries.

23

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

# Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and all its subsidiaries, after elimination of all material intercompany transactions.

INVESTMENT SECURITIES—Debt securities are classified as held to maturity when the Corporation has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported separately in accumulated other comprehensive income, net of tax.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

LOANS HELD FOR SALE are carried at the lower of aggregate cost or market. Market is determined using the aggregate method. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income based on the difference between estimated sales proceeds and aggregate cost.

LOANS are carried at the principal amount outstanding. Certain nonaccrual and substantially delinquent loans may be considered to be impaired. A loan is impaired when, based on current information or events, it is probable that the Banks will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. In applying the provisions of Statement of Financial Accounting Standards ("SFAS") No. 114, the Corporation considers its investment in one-to-four family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. Interest income is accrued on the principal balances of loans, except for installment loans with add-on interest, for which a method that approximates the level yield method is used. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed when considered uncollectable. Interest income is subsequently recognized only to the extent cash payments are received. Certain loan fees and direct costs are being deferred and amortized as an adjustment of yield on the loans.

24

=====  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)  
=====

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

ALLOWANCE FOR LOAN LOSSES is maintained to absorb losses inherent in the loan



Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

portfolio and is based on ongoing, quarterly assessments of the probable losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current operating results. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Corporation's methodology for assessing the appropriateness of the allowance consists of three key elements - the determination of the appropriate reserves for specifically identified loans, historical losses, and environmental or qualitative factors.

Specific allowances are established in those instances where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss may be incurred. The loans that are reviewed for specific allowances are generally those internally classified as substandard, doubtful or loss, including nonaccrual loans, loans in the process of foreclosure and certain loans past due 90 days or more and still accruing interest. Additionally, management also specifically reviews any other loan with a significant loss exposure.

The Corporation's five-year average historical loss experience is used to estimate an appropriate allowance for those loans not individually reviewed. The historical loss experience is determined for each type of loan in the portfolio.

There are certain inherent risks in the Corporation's loan portfolio; accordingly, the Corporation includes certain environmental or qualitative factors in its determination of the adequacy of the allowance for loan losses. These factors include national and local economic conditions that could have an impact of the credit quality of the loan portfolio, lending policies and procedures, portfolio size and composition, delinquency and non-performing loan trends, lending management and staff, loan review systems and procedures, concentration of credit, among other factors. The evaluation of the inherent loss with respect to these factors is subject to a higher degree of uncertainty because they are not identified with specific credits.

=====
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
=====

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

PREMISES AND EQUIPMENT are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line and declining balance methods based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred, while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

FEDERAL RESERVE AND FEDERAL HOME LOAN BANK STOCK are required investments for institutions that are members of the Federal Reserve Bank ("FRB") and Federal Home Loan Bank ("FHLB") systems. The required investment in the common stock is based on a predetermined formula.

INTANGIBLE ASSETS that are subject to amortization, including core deposit intangibles, are being amortized on both the straight-line and accelerated basis

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

over periods ranging from 7 to 25 years. Intangible assets are periodically evaluated as to the recoverability of their carrying value.

GOODWILL is maintained by applying the provisions of SFAS No. 142, which was adopted by the Corporation on January 1, 2002. Goodwill is reviewed for impairment annually in accordance with this statement with any loss recognized through the income statement, at that time.

INCOME TAX in the consolidated statements of income includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. The Corporation files consolidated income tax returns with its subsidiaries.

STOCK OPTIONS are granted for a fixed number of shares to employees. At December 31, 2002, the Corporation has stock-based employee compensation plans, which are described more fully in Note 16. The Corporation's stock option plans are accounted for in accordance with Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. APB No. 25 requires compensation expense for stock options to be recognized only if the market price of the underlying stock exceeds the exercise price on the date of the grant. Accordingly, the Corporation recognized compensation expense of \$23,000 in 2003, 2001 and 2000, related to specific grants in which the market price exceeded the exercise price. For all remaining grants, no stock-based employee compensation cost is reflected in net income, as options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date.

26

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Year Ended December 31		
	2002	2001	
Net income, as reported .....	\$ 27,836	\$ 22,209	\$ 1
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes .....	(1,006)	(498)	
Pro forma net income .....	\$ 26,830	\$ 21,711	\$ 1

Earnings per share:

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Basic - as reported .....	\$	1.79	\$	1.71	\$
Basic - pro forma .....	\$	1.72	\$	1.67	\$
Diluted - as reported .....	\$	1.77	\$	1.69	\$
Diluted - pro forma .....	\$	1.71	\$	1.66	\$

EARNINGS PER SHARE have been computed based upon the weighted average common and common equivalent shares outstanding during each year and have been restated to give effect to a five percent (5%) stock dividend on its shares of outstanding common stock distributed to stockholders on September 13, 2002.

### NOTE 2

#### BUSINESS COMBINATIONS

Effective September 6, 2002, the Corporation acquired Stephenson Insurance Service, Inc., which was merged into FMIS, a wholly-owned subsidiary of the Corporation. The Corporation issued 36,276 shares of its common stock at a cost of \$27.47 per share to complete the transaction. This acquisition was deemed to be an immaterial acquisition.

On August 28, 2002, the Corporation signed a definitive agreement to acquire CNBC Bancorp ("CNBC"), Columbus, Ohio. The acquisition will be accounted for under the purchase method of accounting. Under the terms of the agreement, the Corporation will exchange 1.01 shares of the Corporation's common stock or \$29.57 in cash for each of the outstanding shares of CNBC. However, no more than \$24,562,000 aggregate cash may be paid in the merger, and there may be allocations of stock to certain shareholders if this threshold is exceeded. The transaction is subject to approval by stockholders of CNBC, and appropriate regulatory agencies. The Corporation anticipates amortizing core deposit intangibles over ten years. As of December 31, 2002 CNBC had total assets and shareholders' equity of \$331,741,000 and \$24,265,000 respectively. To fund a portion of the cash consideration payable to the stockholders of CNBC, the Corporation will establish a wholly owned trust subsidiary that will issue and sell up to \$25,000,000 in trust preferred securities of the Corporation. The preferred securities will have a 30 year maturity and a coupon rate based upon three-month LIBOR, plus 325 basis points, but LIBOR

27

=====

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(table dollar amounts in thousands, except share data)

=====

### NOTE 2

#### BUSINESS COMBINATIONS continued

shall not exceed 8.75% prior to the fifth anniversary of the closing date. The proceeds from the sale of the preferred securities will be loaned to the Corporation by the trust subsidiary in exchange for subordinated debentures with terms that are similar to the preferred securities and will be recorded as debt in the Corporation's consolidated financial statements. The subordinated debentures will be the sole asset of the trust subsidiary. Issuance costs will be amortized over the life of the preferred securities. The Corporation will guarantee the preferred securities and distributions.

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

On April 1, 2002, the Corporation acquired 100% of the outstanding stock of Lafayette Bancorporation, the holding company of Lafayette, which is located in Lafayette, Indiana. Lafayette is a state chartered bank with branches located in central Indiana. Lafayette Bancorporation was merged into the Corporation, and Lafayette maintained its state charter as a subsidiary of First Merchants Corporation. The Corporation issued approximately 2,911,712 shares of its common stock at a cost of \$22.36 per share and approximately \$50,867,000 in cash to complete the transaction. As a result of the acquisition, the Corporation has an opportunity to increase its customer base and continue to increase its market share. The purchase had a recorded acquisition price of \$115,978,000, including goodwill of \$57,893,000 none of which is deductible for tax purposes. Additionally, core deposit intangibles totaling \$16,052,000 were recognized and will be amortized over 10 years using the 150% declining balance method.

The combination was accounted for under the purchase method of accounting. All assets and liabilities were recorded at their fair values as of April 1, 2002. The purchase accounting adjustments are being amortized over the life of the respective asset or liability. Lafayette's results of operations are included in the Corporation's consolidated income statement beginning April 1, 2002. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Investments.....	\$104,717
Loans.....	552,016
Premises and equipment.....	10,269
Core deposit intangibles.....	16,052
Goodwill.....	57,893
Other.....	64,074
	-----
Total assets acquired.....	805,021
	-----
Deposits.....	607,281
Other.....	81,762
	-----
Total liabilities acquired.....	689,043
	-----
Net assets acquired.....	\$115,978
	-----

28

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 2

BUSINESS COMBINATIONS continued

The following proforma disclosures, including the effect of the purchase accounting adjustments, depict the results of operations as though the Lafayette merger had taken place at the beginning of each period.

Year Ended	
December 31,	
2002	2001
-----	-----

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Net Interest Income .....	\$ 98,855	\$ 87,090
Net Income .....	28,016	28,504
Per share - combined:		
Basic Net Income.....	1.69	1.79
Diluted Net Income.....	1.68	1.78

Effective January 1, 2002, the Corporation acquired Delaware County Abstract Company, Inc. and Beebe & Smith Title Insurance Company, Inc., which were merged into ITIC, a wholly-owned subsidiary of the Corporation. The Corporation issued approximately 108,919 shares of its common stock at a cost of \$22.38 per share to complete the transaction. ITIC's operations were subsequently contributed to Indiana Title Insurance Company, LLC in which the Corporation has a 52.12% ownership interest. This acquisition was deemed to be an immaterial acquisition.

On July 1, 2001, the Corporation acquired 100% of the outstanding stock of Francor Financial, Inc., the holding company of Frances Slocum. Frances Slocum is a state chartered bank with branches located in east-central Indiana. Francor Financial, Inc. was merged into the Corporation, and Frances Slocum maintained its state charter as a subsidiary of First Merchants Corporation. The Corporation issued 747,465 shares of its common stock at a cost of \$20.51 per share and \$14,490,985 in cash to complete the transaction. As a result of the acquisition, the Corporation has an opportunity to increase its customer base and continue to increase its market share. The purchase had a recorded acquisition price of \$29,454,000, including goodwill of \$7,907,000, none of which is deductible for tax purposes. Additionally, core deposit intangibles totaling \$4,804,000 were recognized and will be amortized over 10 years using the 150% declining balance method.

The combination was accounted for under the purchase method of accounting. All assets and liabilities were recorded at their fair values as of July 1, 2001. The purchase accounting adjustments are being amortized over the life of the respective asset or liability. Francor Financial Inc.'s results of operations are included in the Corporation's consolidated income statement beginning July 1, 2001.

29

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 2

BUSINESS COMBINATIONS continued

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Loans.....	\$ 134,505	
Premises and equipment.....	4,401	
Core deposit intangibles.....	4,804	
Goodwill.....	7,907	
Other.....	34,581	
	-----	
Total assets acquired.....	186,198	

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Deposits.....	150,252
Other.....	6,492
-----	
Total liabilities acquired....	156,744
-----	
Net assets acquired.....	\$ 29,454
=====	

The following proforma disclosures, including the effect of the purchase accounting adjustments, depict the results of operations as though the Frances Slocum merger had taken place at the beginning of each period.

	Year Ended December 31,	
	2001	2000
	-----	-----
Net Interest Income.....	\$ 67,352	\$ 62,296
Net Income.....	21,876	21,438
Per share - combined:		
Basic Net Income.....	1.63	1.62
Diluted Net Income.....	1.62	1.61

On May 31, 2000, the Corporation acquired Decatur Financial Inc., the holding company of Decatur. Decatur is a state chartered commercial bank with branches located in east-central Indiana. Decatur Financial Inc. was merged into the Corporation through the exchange of 960,230 shares of newly issued common stock and \$12,355,000 of cash. The combination was accounted for under the purchase method of accounting. Decatur's results of operations are included in the Corporation's consolidated income statement beginning June 1, 2000. The purchase resulted in core deposit intangibles of \$2,046,000, which are being amortized over 10 years using 150% declining balance method. The purchase had a recorded acquisition price of \$33,299,000, including goodwill of \$17,040,000.

The purchase resulted in the Corporation recording net loans of \$89,332,000, held to maturity and available for sale securities of \$3,921,000 and \$14,132,000 respectively, deposit liabilities of \$107,056,000 and borrowings of \$7,218,000. All assets and liabilities were recorded at fair values as of May 31, 2000. The purchase accounting adjustments are being amortized over the life of the respective asset or liability.

30

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 2

BUSINESS COMBINATIONS continued

The following proforma disclosures, including the effect of the purchase accounting adjustments, depict the results of operations as though the Decatur merger had taken place at the beginning of the period.

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

	Year Ended December 31, 2000
	-----
Net Interest Income .....	\$ 57,849
Net Income .....	\$ 19,563
Net Income per share - combined:	
Basic .....	\$ 1.48
Diluted .....	1.47

NOTE 3

RESTRICTION ON CASH AND DUE FROM BANKS

The Banks are required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2002, was \$33,371,000.

31

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 4

INVESTMENT SECURITIES

	AMORTIZED COST	GROSS UNREALIZED GAINS
	-----	-----
Available for sale at December 31, 2002		
U.S. Treasury .....	\$ 125	
Federal agencies .....	27,630	\$ 814
State and municipal .....	135,715	5,787
Mortgage-backed securities .....	117,724	2,448
Other asset-backed securities .....	1,000	
Corporate obligations .....	12,101	465
Marketable equity securities .....	29,452	20
	-----	-----
Total available for sale .....	323,747	9,534
	-----	-----
Held to maturity at December 31, 2002		
State and municipal .....	9,013	448
Mortgage-backed securities .....	124	
	-----	-----
Total held to maturity .....	9,137	448
	-----	-----
Total investment securities .....	\$332,884	\$ 9,982
	=====	=====

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Available for sale at December 31, 2001

U.S. Treasury .....	\$ 124	
Federal agencies .....	30,808	\$ 767
State and municipal .....	74,776	1,644
Mortgage-backed securities .....	100,811	1,710
Other asset-backed securities .....	10,116	167
Corporate obligations .....	3,498	116
Marketable equity securities .....	7,472	
	-----	-----
Total available for sale .....	227,605	4,404
	-----	-----

Held to maturity at December 31, 2001

State and municipal .....	8,426	166
Mortgage-backed securities .....	228	
	-----	-----
Total held to maturity .....	8,654	166
	-----	-----
Total investment securities .....	\$236,259	\$ 4,570
	=====	=====

The amortized cost and fair value of securities available for sale and held to maturity at December 31, 2002, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AVAILABLE FOR SALE	
	AMORTIZED COST	FAIR VA
-----		
=====		
Maturity distribution at December 31, 2002:		
Due in one year or less.....	\$ 22,226	\$ 22,6
Due after one through five years .....	67,198	70,1
Due after five through ten years .....	46,601	48,5
Due after ten years .....	39,546	41,1
	-----	-----
	175,571	182,4
Mortgage-backed securities .....	117,724	120,1
Other asset-backed securities .....	1,000	1,0
Marketable equity securities .....	29,452	29,3
	-----	-----
Totals .....	\$323,747	\$332,9
	=====	=====

32

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 4

INVESTMENT SECURITIES continued



## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Securities with a carrying value of approximately \$136,269,000 and \$106,476,000 were pledged at December 31, 2002 and 2001 to secure certain deposits and securities sold under repurchase agreements, and for other purposes as permitted or required by law.

In addition, all otherwise unpledged securities are pledged as collateral for Federal Home Loan Bank advances with qualified first mortgage loans.

Proceeds from sales of securities available for sale during 2002, 2001 and 2000 were \$21,363,000, \$770,000 and \$14,654,000. Gross gains of \$739,000 in 2002 and gross losses of \$200,000 and \$107,000 in 2001 and 2000, were realized on those sales.

### NOTE 5

#### LOANS AND ALLOWANCE

	2002
=====	
Loans at December 31:	
Commercial and industrial loans .....	\$ 406,644
Agricultural production financing and other loans to farmers .....	85,059
Real estate loans:	
Construction .....	133,896
Commercial and farmland .....	401,561
Residential .....	746,349
Individuals' loans for household and other personal expenditures .....	206,083
Tax-exempt loans .....	12,615
Other loans .....	12,170
	-----
	2,004,377
Allowance for loan losses.....	(22,417)
	-----
Total loans .....	\$1,981,960
	=====

	2002	2001	2000
=====			
Allowance for loan losses:			
Balance, January 1 .....	\$ 15,141	\$ 12,454	\$ 10,128
Allowance acquired in acquisitions .....	6,902	2,085	1,413
Provision for losses .....	7,174	3,576	2,625
Recoveries on loans .....	1,313	573	579
Loans charged off .....	(8,113)	(3,547)	(2,291)
	-----	-----	-----
Balance, December 31 .....	\$ 22,417	\$ 15,141	\$ 12,454
	=====	=====	=====

Information on nonaccruing, contractually past due 90 days or more other than nonaccruing and restructured loans is summarized below:

	2002	2001	2000
=====			

At December 31:

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Non-accrual loans .....	\$14,134	\$ 6,327	\$2,370
Loans contractually past due 90 days or more other than nonaccruing ...	6,676	4,828	2,483
Restructured loans .....	2,508	3,511	3,085

33

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 5

LOANS AND ALLOWANCE continued

Nonaccruing loans are loans which are reclassified to a nonaccruing status when in management's judgment the collateral value and financial condition of the borrower do not justify accruing interest. Interest previously recorded, but not deemed collectible, is reversed and charged against current income. Interest income on these loans is then recognized when collected.

Restructured loans are loans for which the contractual interest rate has been reduced or other concessions are granted to the borrower, because of a deterioration in the financial condition of the borrower resulting in the inability of the borrower to meet the original contractual terms of the loans.

Information on impaired loans is summarized below:	2002	2001
As of, and for the year ending December 31:		
Impaired loans with an allowance .....	\$16,901	\$10,381
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan .....	27,450	10,780
	-----	-----
Total impaired loans .....	\$44,351	\$21,161
	=====	=====
Total impaired loans as a percent of total loans .....	2.19%	1.56%
Allowance for impaired loans (included in the Corporation's allowance for loan losses) .....	\$ 7,299	\$ 3,251
Average balance of impaired loans .....	49,663	22,327
Interest income recognized on impaired loans .....	3,656	1,538
Cash basis interest included above .....	2,344	1,555

NOTE 6

PREMISES AND EQUIPMENT

2002 2001

=====

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Cost at December 31:		
Land .....	\$ 6,473	\$ 5,626
Buildings and leasehold improvements .....	39,768	26,747
Equipment .....	34,898	26,127
	-----	-----
Total cost .....	81,139	58,500
Accumulated depreciation and amortization .....	(42,494)	(30,816)
	-----	-----
Net .....	\$ 38,645	\$ 27,684
	=====	=====

The Corporation is committed under various noncancelable lease contracts for certain subsidiary office facilities. Total lease expense for 2002, 2001 and 2000 was \$1,027,000, \$771,000 and \$515,000, respectively. The future minimum rental commitments required under the operating leases in effect at December 31, 2002, expiring at various dates through the year 2013 are as follows for the years ending December 31:

2003 .....	\$ 967
2004 .....	795
2005 .....	533
2006 .....	567
2007 .....	345
After 2007 .....	323
	-----
Total future minimum obligations	\$3,530
	=====

34

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

NOTE 7

GOODWILL

During 2002, the Corporation changed its method of accounting and financial reporting for goodwill and other intangible assets by adopting the provisions of SFAS No. 142. Had the new method been applied retroactively, the previously reported 2001 and 2000 net income would have increased by \$1,070,000 and \$724,000, respectively. No impairment loss was recorded in 2002.

NOTE 8

CORE DEPOSIT INTANGIBLES

The carrying basis and accumulated amortization of recognized core deposit intangibles at December 31 were:

	2002	2001
	-----	-----
Gross carrying amount .....	\$ 22,902	\$ 6,850
Accumulated amortization .....	(3,325)	(754)

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Core deposit intangibles .....	----- \$ 19,577 =====	----- \$ 6,096 =====
--------------------------------	-----------------------------	----------------------------

Amortization expense for the years ended December 31, 2002, 2001 and 2000, was \$2,571,000, \$612,000 and \$142,000, respectively. Estimated amortization expense for each of the following five years is:

2003 .....	\$2,837
2004 .....	2,764
2005 .....	2,694
2006 .....	2,625
2007 .....	2,560

35

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 9

DEPOSITS

	2002	2001
=====		
Deposits at December 31:		
Demand deposits .....	\$ 594,961	\$ 418,481
Savings deposits .....	567,186	366,084
Certificates and other time deposits of \$100,000 or more .....	199,734	192,400
Other certificates and time deposits .....	674,807	444,286
	-----	-----
Total deposits .....	\$2,036,688	\$1,421,251
	=====	=====

=====

Certificates and other time deposits maturing  
in years ending December 31:

2003 .....	\$479,891
2004 .....	209,698
2005 .....	66,587
2006 .....	44,210
2007 .....	71,035
After 2007 .....	3,120
	-----
	\$874,541
	=====

NOTE 10

BORROWINGS

2002	2001
------	------

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Borrowings at December 31:		
Securities sold under repurchase agreements .....	\$ 89,594	\$ 45,632
Federal funds purchased .....		10,500
U. S. Treasury demand notes .....		6,273
Federal Home Loan Bank advances .....	184,677	103,499
Trust preferred securities.....	53,188	
Other borrowed funds.....	29,468	8,500
	-----	-----
Total borrowings .....	\$356,927	\$174,404
	=====	=====

Securities sold under repurchase agreements consist of obligations of the Banks to other parties. The obligations are secured by U.S. Treasury, Federal agency obligations and corporate asset-backed securities. The maximum amount of outstanding agreements at any month-end during 2002 and 2001 totaled \$89,594,000 and \$68,546,000, and the average of such agreements totaled \$72,791,000 and \$59,365,000.

36

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

NOTE 10

BORROWINGS continued

Maturities of Federal Home Loan Bank advances and securities sold under repurchase agreements as of December 31, 2002, are as follows:

FEDERAL HOME LOAN BANK ADVANCES			
	AMOUNT	WEIGHTED-AVERAGE INTEREST RATE	
Maturities in years ending December 31:			
2003 .....	\$ 15,626	5.10%	\$6
2004 .....	18,000	4.84	1
2005 .....	18,500	4.65	
2006 .....	20,403	4.95	
2007 .....	10,495	4.38	
After 2007 .....	101,653	5.11	
	-----		---
Total .....	\$184,677	4.98%	\$8
	=====		==

The terms of a security agreement with the FHLB require the Corporation to pledge, as collateral for advances, qualifying first mortgage loans and all otherwise unpledged investment securities in an amount equal to at least 160 percent of these advances. Advances are subject to restrictions or penalties in

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

the event of prepayment.

On April 12, 2002, the Corporation and FMC Trust I (the "Trust") entered into an Underwriting Agreement with Stifel, Nicolaus & Company, Incorporated and RBC Dain Rauscher Inc. for themselves and as co-representatives for several other underwriters (the "Underwriting Agreement"). On April 17, 2002 and pursuant to the Underwriting Agreement, the Trust issued 1,850,000 8.75% Cumulative Trust Preferred Securities (liquidation amount \$25 per Preferred Security) (the "Preferred Securities") with an aggregate liquidation value of \$46,250,000. On April 23, 2002 and pursuant to the Underwriting Agreement, the Trust issued an additional 277,500 Preferred Securities with an aggregate liquidation value of \$6,937,500 to cover over-allotments. The proceeds from the sale of the Preferred Securities were invested by the Trust in the Corporation's 8.75% Junior Subordinated Debentures due June 30, 2032 (the "Debentures"). The proceeds from the issuance of the Debentures were used by the Corporation to fund a portion of the cash consideration payable to the shareholders of Lafayette Bancorporation in connection with the acquisition of Lafayette. The Preferred Securities are recorded as borrowings in the Corporation's consolidated December 31, 2002, balance sheet. Issuance costs are being amortized over the life of the Preferred Securities. Distributions are paid quarterly on March 31, June 30, September 30 and December 31 of each year. The Debentures will mature and the Preferred Securities must be redeemed on June 30, 2032. The Trust has the option of shortening the maturity date to a date not earlier than June 30, 2007, requiring prior approval of the Board of Governors of the Federal Reserve System.

37

=====
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)
=====

NOTE 10

BORROWINGS continued

At December 31, 2002, other borrowed funds included \$19,300,000 of an unsecured revolving credit note payable to the Northern Trust Company with interest payable monthly based upon the Federal Funds Rate plus .875%. Principal and remaining interest are due on or before March 31, 2003. The total principal amount outstanding at any one time may not exceed \$25,000,000.

NOTE 11

LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The loans are serviced primarily for the Federal Home Loan Mortgage Corporation, and the unpaid balances totaled \$48,773,000, \$37,909,000 and \$22,591,000 at December 31, 2002, 2001 and 2000. The amount of capitalized servicing assets is considered immaterial.

NOTE 12

INCOME TAX

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

2002

Income tax expense for the year ended December 31:	
Currently payable:	
Federal .....	\$ 11,869
State .....	2,615
Deferred:	
Federal .....	(446)
State .....	(57)
	-----
Total income tax expense .....	\$ 13,981
	=====

Reconciliation of federal statutory to actual tax expense:	
Federal statutory income tax at 34% .....	\$ 14,085
Tax-exempt interest .....	(2,006)
Graduated tax rates .....	355
Effect of state income taxes .....	1,613
Other .....	(66)
	-----
Actual tax expense .....	\$ 13,981
	=====

38

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

NOTE 12

INCOME TAX continued

Tax expense (benefit) applicable to security gains and losses for the years ended December 31, 2002, 2001 and 2000, was \$296,000, (\$80,000) and \$(43,000), respectively.

A cumulative net deferred tax asset (liability) is included in the consolidated balance sheets. The components of the asset (liability) are as follows:

Deferred tax asset at December 31:	
Assets:	
Differences in accounting for loan losses .....	\$ 8,820
Deferred compensation .....	1,949
Other .....	157
	-----
Total assets .....	10,926
	-----
Liabilities:	

2002

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Differences in depreciation methods .....	1,058
Differences in accounting for loans and securities .....	7,072
Differences in accounting for loan fees .....	383
Differences in accounting for pensions and other employee benefits .....	86
State income tax .....	57
Net unrealized gain on securities available for sale.....	2,513
Other .....	1,040
	-----
Total liabilities .....	12,209
	-----
Net deferred tax asset (liability).....	\$ (1,283)
	=====

NOTE 13

COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business there are outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Banks use the same credit policies in making such commitments as they do for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk as of December 31, were as follows:

	2002	2001
	-----	-----
Commitments to extend credit	\$312,146	\$199,656
Standby letters of credit	18,124	9,806

39

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 13

COMMITMENTS AND CONTINGENT LIABILITIES continued

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Banks evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed



Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

necessary by the Banks upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party.

The Corporation and subsidiaries are also subject to claims and lawsuits, which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Corporation.

NOTE 14

STOCKHOLDERS' EQUITY

National and state banking laws restrict the maximum amount of dividends that a bank may pay in any calendar year. National and state banks are limited to the bank's retained net income (as defined) for the current year plus those for the previous two years. At December 31, 2002, First United, Union National, Decatur and Frances Slocum, had no retained net profits available for 2003 dividends to the Corporation without prior regulatory approval. The amount at December 31, 2002, available for 2003 dividends from First Merchants, Madison, Randolph County, First National and Lafayette to the Corporation totaled \$6,279,000, \$758,000, \$903,000, \$962,000 and \$6,245,000, respectively.

Total stockholders' equity for all subsidiaries at December 31, 2002, was \$320,320,000, of which \$300,073,000 was restricted from dividend distribution to the Corporation.

The Corporation has a Dividend Reinvestment and Stock Purchase Plan, enabling stockholders to elect to have their cash dividends on all shares held automatically reinvested in additional shares of the Corporation's common stock. In addition, stockholders may elect to make optional cash payments up to an aggregate of \$2,500 per quarter for the purchase of additional shares of common stock. The stock is credited to participant accounts at fair market value. Dividends are reinvested on a quarterly basis. At December 31,

40

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 14

STOCKHOLDERS' EQUITY continued

2002, there were 337,020 shares of common stock reserved for purchase under the plan.

On August 13, 2002, the Board of Directors of the Corporation declared a five percent (5%) stock dividend on its outstanding common shares. The new shares were distributed on September 13, 2002, to holders of record on August 30, 2002.

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

On August 14, 2001, the Board of Directors of the Corporation declared a five percent (5%) stock dividend on its outstanding common shares. The new shares were distributed on September 24, 2001, to holders of record on September 3, 2001.

NOTE 15

REGULATORY CAPITAL

The Corporation and Banks are subject to various regulatory capital requirements administered by the federal banking agencies and are assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated according to the regulations: total risk adjusted capital, Tier 1 capital, and Tier 1 leverage ratios. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures of the entity. The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios.

There are five capital categories defined in the regulations, ranging from well capitalized to critically undercapitalized. Classification of a bank in any of the undercapitalized categories can result in actions by regulators that could have a material effect on a bank's operations.

At December 31, 2002, the management of the Corporation believes that it meets all capital adequacy requirements to which it is subject. The most recent notifications from the regulatory agencies categorized the Corporation and Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain a minimum total capital to risk-weighted assets, Tier I capital to risk-weighted assets and Tier I capital to average assets of 10 percent, 6 percent and 5 percent, respectively. There have been no conditions or events since that notification that management believes have changed this categorization.

41

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 15

REGULATORY CAPITAL continued

Actual and required capital amounts and ratios are listed below.

		2002				
		ACTUAL		REQUIRED FOR		
		AMOUNT	RATIO	ADEQUATE CAPITAL (1)	RATIO	AMOUNT
				AMOUNT		
December 31						
Total Capital (1) (to risk-weighted assets)						

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Consolidated .....	\$224,967	11.17%	\$161,087	8.00%	\$159,31
First Merchants .....	69,424	11.69	47,493	8.00	70,56
Madison .....	21,040	11.45	14,706	8.00	19,32
First United .....	7,429	12.97	4,581	8.00	8,24
Randolph County .....	7,616	11.27	5,407	8.00	7,00
Union County .....	16,636	12.35	10,778	8.00	17,89
First National .....	10,211	11.37	7,182	8.00	10,38
Decatur .....	11,462	11.77	7,789	8.00	11,87
Frances Slocum .....	16,259	11.68	11,132	8.00	13,63
Lafayette .....	67,912	11.00	49,387	8.00	
Tier I Capital (1) (to risk-weighted assets)					
Consolidated .....	\$202,550	10.06%	\$ 80,543	4.00%	\$144,17
First Merchants .....	63,776	10.74	23,746	4.00	64,81
Madison .....	18,978	10.32	7,353	4.00	17,85
First United .....	6,713	11.72	2,290	4.00	7,54
Randolph County .....	6,771	10.02	2,703	4.00	6,27
Union County .....	15,202	11.28	5,389	4.00	16,33
First National .....	9,324	10.39	3,591	4.00	9,38
Decatur .....	10,242	10.52	3,895	4.00	10,83
Frances Slocum.....	14,510	10.43	5,566	4.00	12,00
Lafayette .....	61,111	9.90	24,694	4.00	
Tier I Capital (1) (to average assets)					
Consolidated .....	\$202,550	7.92%	\$102,309	4.00%	\$144,17
First Merchants .....	63,776	8.14	31,327	4.00	64,81
Madison .....	18,978	8.47	8,959	4.00	17,85
First United .....	6,713	8.32	3,226	4.00	7,54
Randolph County .....	6,771	7.64	3,546	4.00	6,27
Union County .....	15,202	7.38	8,239	4.00	16,33
First National .....	9,324	8.20	4,547	4.00	9,38
Decatur .....	10,242	7.66	5,350	4.00	10,83
Frances Slocum.....	14,510	8.37	6,933	4.00	12,00
Lafayette .....	61,111	7.93	30,813	4.00	

(1) as defined by regulatory agencies

NOTE 16

EMPLOYEE BENEFIT PLANS

The Corporation's defined-benefit pension plans cover substantially all of the Corporation's employees. The benefits are based primarily on years of service and employees' pay near retirement. Contributions are intended to provide not only for benefits attributed to service-to-date, but also for those expected to be earned in the future.

42

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 16

EMPLOYEE BENEFIT PLANS continued

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

The table below sets forth the plans' funded status and amounts recognized in the consolidated balance sheets at December 31:

	December 31	
	2002	2001
<hr style="border-top: 1px dashed black;"/>		
Change in benefit obligation		
Benefit obligation at beginning of year .....	\$ 20,172	\$ 16,953
Obligation acquired in acquisition .....	17,712	
Service cost .....	2,007	926
Interest cost .....	2,470	1,269
Actuarial loss .....	3,971	2,048
Benefits paid .....	(1,614)	(1,024)
	44,718	20,172
<hr style="border-top: 1px dashed black;"/>		
Change in plan assets		
Fair value of plan assets at beginning of year	20,638	23,967
Fair value of plan assets acquired in acquisition...	15,507	
Actual loss on plan assets .....	(2,881)	(2,305)
Benefits paid .....	(1,614)	(1,024)
	31,650	20,638
<hr style="border-top: 1px dashed black;"/>		
Funded (unfunded) status .....	(13,068)	466
Unrecognized net actuarial loss.....	12,940	442
Unrecognized prior service cost .....	1,986	(107)
Unrecognized transition asset .....	(329)	(69)
	1,529	732
Prepaid benefit cost .....	(3,810)	
Additional pension liability .....		
	\$ (2,281)	\$ 732
<hr style="border-top: 1px dashed black;"/>		
Amounts recognized in the balance sheets consist of:		
Prepaid benefit cost .....	\$ 1,529	\$ 732
Additional pension liability .....	(3,810)	
Intangible asset .....	1,613	
Deferred taxes .....	879	
Accumulated other comprehensive loss .....	1,318	
	\$ 1,529	\$ 732
Net amount recognized .....	\$ 1,529	\$ 732

	2002	2001	2000
<hr style="border-top: 1px dashed black;"/>			
Pension cost (benefit) includes the following components:(1)			
Service cost-benefits earned during the year .....	\$ 1,770	\$ 926	\$ 714
Interest cost on projected benefit obligation .....	2,202	1,269	1,181
Actual (return) loss on plan assets .....	2,654	2,305	(2,570)
Net amortization and deferral .....	(5,674)	(4,858)	160
	\$ 952	\$ (358)	\$ (515)
Total pension cost (benefit) .....	\$ 952	\$ (358)	\$ (515)

(1) Lafayette components are included beginning as of April 1, 2002.

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

	2002	2001	2000
Assumptions used in the accounting as of December 31 were:			
Discount rate .....	6.75%	7.11%	7.70%
Rate of increase in compensation .....	4.00%	4.00%	4.00%
Expected long-term rate of return on assets .....	8.14%	9.00%	9.00%

The 1994 Stock Option Plan reserved 520,931 shares of Corporation common stock for the granting of options to certain employees and non-employee directors. The exercise price of the shares may not be less than the fair market value of the shares upon the grant of the option. Options become 100 percent vested when granted and are fully exercisable generally six months after the date of the grant, for a period of ten years. There were no shares available for grant.

43

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

The 1999 Long-term Equity Incentive Plan reserved 1,323,000 shares of Corporation common stock for the granting of options to certain employees and non-employee directors. The maximum number of options granted in any given year cannot exceed 1.5% of the shares outstanding at the end of the prior fiscal year. Options, which have a ten year life, become 100 percent vested ranging from six month to two years and are fully exercisable when vested. There were 939,484 shares available for grant at December 31, 2002.

The table below is a summary of the status of the Corporation's stock option plans and changes in those plans as of and for the years ended December 31, 2002, 2001 and 2000. The number of shares and prices have been restated to give effect to the Corporation's 2002 stock dividend.

Year Ended December 31,	2002		2001	
OPTIONS	WEIGHTED-AVERAGE SHARES	EXERCISE PRICE	WEIGHTED-AVE SHARES	EXERCI
Outstanding, beginning of year .....	734,111	\$ 18.81	626,943	\$
Granted .....	158,819	28.19	136,503	
Exercised .....	(68,131)	13.38	(25,449)	
Cancelled .....	(22,339)	23.29	(3,886)	
	-----		-----	
Outstanding, end of year .....	802,460	\$ 21.01	734,111	\$
	=====		=====	
Options exercisable at year end .....	542,627		494,962	
Weighted-average fair value of options granted during the year .....		\$ 7.84		\$

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

As of December 31, 2002, other information by exercise price range for options outstanding and exercisable is as follows:

OUTSTANDING				
EXERCISE PRICE RANGE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF SHARES
\$ 0.00 - \$19.19	329,799	\$16.61	4.7 years	328,5
20.55 - 26.04	310,001	21.92	7.2 years	201,1
26.60 - 28.64	162,660	28.20	9.2 years	12,8
	802,460	\$21.01	6.5 years	542,6

Although the Corporation has elected to follow APB No. 25, SFAS No. 123 requires pro forma disclosures of net income and earnings per share as if the Corporation had accounted for its employee stock options under that Statement.

44

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

The fair value of each option grant was estimated on the grant date using an option-pricing model with the following assumptions:

	2002	2001	2000
Risk-free interest rates.....	4.78%	5.32%	6.01%
Dividend yields.....	3.63%	3.59%	3.38%
Volatility factors of expected market price common stock...	31.02%	30.95%	22.86%
Weighted-average expected life of the options .....	8.50 years	8.50 years	8.50 years

Under SFAS No. 123, compensation cost is recognized in the amount of the estimated fair value of the options and amortized to expense over the options' vesting period. The pro forma effect on net income and earnings per share of this statement are shown in Note 1 to the consolidated financial statements.

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

The 1999 Employee Stock Purchase Plan enables eligible employees to purchase the Corporation's common stock. A total of 275,625 shares of the Corporation's common stock were initially reserved for issuance pursuant to the plan. The price of the stock to be paid by the employees is determined by the Corporation's compensation committee, but may not be less than 85 percent of the lesser of the fair market value of the Corporation's common stock at the beginning or at the end of the offering period. Common stock purchases are made annually and are paid through advance payroll deductions of up to 20 percent of eligible compensation. Participants under the plan purchased 37,394 shares in 2002 at \$17.61 per share. The fair value on the purchase date was \$28.28.

45

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 16

EMPLOYEE BENEFIT PLANS continued

At December 31, 2002, there were 195,217 shares of Corporation common stock reserved for purchase under the plan, and \$453,000 has been withheld from compensation, plus interest, toward the purchase of shares after June 30, 2003, the end of the annual offering period.

The Corporation's Employee Stock Purchase Plan is accounted for in accordance with APB No. 25. Although the Corporation has elected to follow APB No. 25, SFAS No. 123 requires pro forma disclosures of net income and earnings per share as if the Corporation had accounted for the purchased shares under that statement. The pro forma disclosures are included in Note 1 to the consolidated financial statements and were estimated using an option pricing model with the following assumptions for 2002, 2001 and 2000, respectively: dividend yield of 3.63, 3.59, and 3.38 percent; an expected life of one year for all years; expected volatility of 31.02, 30.95, and 22.86 percent; and risk-free interest rates of 4.78, 5.32 and 6.01 percent. The fair value of those purchase rights granted in 2002, 2001 and 2000 was \$10.65, \$5.36 and \$3.82 respectively.

The Corporation maintains retirement savings 401(k) plans in which substantially all employees may participate. The Corporation matches employees' contributions at the rate of 25 to 50 percent for the first 4 to 6 percent of base salary contributed by participants. The Corporations' expense for the plans was \$315,000 for 2002, \$190,000 for 2001 and \$182,000 for 2000.

NOTE 17

NET INCOME PER SHARE

Year Ended December 31,	2002			2001		
	WEIGHTED-AVERAGE PER SHARE INCOME	SHARES	PER SHARE AMOUNT	WEIGHTED-AVERAGE PER SHARE INCOME	SHARES	PER SHARE AMOUNT

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Basic net income per share:

Net income available to common stockholders .....	\$27,836	15,585,512	\$1.79	\$22,209	13,019,984	\$1.71
			=====			=====
Effect of dilutive stock options..		131,146			93,811	
	-----	-----		-----	-----	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions .....	\$27,836	15,716,658	\$1.77	\$22,209	13,113,795	\$1.69
	=====	=====	=====	=====	=====	=====

Options to purchase 154,483, 117,625 and 228,708 shares of common stock with weighted average exercise prices of \$27.24, \$24.76, and \$22.62 at December 31, 2002, 2001 and 2000 were excluded from the computation of diluted net income per share because the options exercise price was greater than the average market price of the common stock.

46

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 18

FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

CASH AND CASH EQUIVALENTS The fair value of cash and cash equivalents approximates carrying value.

INTEREST-BEARING TIME DEPOSITS The fair value of interest-bearing time deposits approximates carrying value.

INVESTMENT SECURITIES Fair values are based on quoted market prices.

MORTGAGE LOANS HELD FOR SALE The fair value of mortgages held for sale approximates carrying values.

LOANS For both short-term loans and variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value for other loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

FEDERAL RESERVE AND FEDERAL HOME LOAN BANK STOCK The fair value of FRB and FHLB stock is based on the price at which it may be resold to the FRB and FHLB.

INTEREST RECEIVABLE/PAYABLE The fair values of interest receivable/payable approximate carrying values.

CASH SURRENDER VALUE OF LIFE INSURANCE The fair value of cash surrender value of life insurance approximates carrying value.



Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

DEPOSITS The fair values of noninterest-bearing demand accounts, interest-bearing demand accounts and savings deposits are equal to the amount payable on demand at the balance sheet date. The carrying amounts for variable rate, fixed-term certificates of deposit approximate their fair values at the balance sheet date. Fair values for fixed-rate certificates of deposit and other time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on such time deposits.

47

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 18

FAIR VALUES OF FINANCIAL INSTRUMENTS continued

FEDERAL FUNDS PURCHASED, U.S. TREASURY DEMAND NOTES AND OTHER BORROWED FUNDS

These financial instruments are short-term borrowing arrangements. The rates at December 31, approximate market rates, thus the fair value approximates carrying value.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS, FEDERAL HOME LOAN BANK ADVANCES AND TRUST PREFERRED SECURITIES

The fair value of the these borrowings is estimated using a discounted cash flow calculation, based on current rates for similar debt.

OFF-BALANCE SHEET COMMITMENTS

Loan commitments and letters-of-credit generally have short-term, variable-rate features and contain clauses which limit the Banks' exposure to changes in customer credit quality. Accordingly, their carrying values, which are immaterial at the respective balance sheet dates, are reasonable estimates of fair value.

The estimated fair values of the Corporation's financial instruments are as follows:

	2002	
	CARRYING AMOUNT	FAIR VALUE
-----		
Assets at December 31:		
Cash and cash equivalents .....	\$ 119,038	\$ 119,038
Interest-bearing time deposits .....	3,568	3,568
Investment securities available for sale .....	332,925	332,925
Investment securities held to maturity .....	9,137	9,585
Mortgage loans held for sale .....	21,545	21,545

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Loans .....	1,981,960	2,008,189
FRB and FHLB stock .....	11,409	11,409
Interest receivable .....	17,346	17,346
Cash surrender of life insurance.....	14,309	14,309
Liabilities at December 31:		
Deposits .....	2,036,688	2,063,474
Borrowings:		
Securities sold under repurchase agreements .....	89,594	90,138
Federal funds purchased .....		
U.S. Treasury demand notes .....		
FHLB advances .....	184,677	196,244
Trust preferred securities .....	53,188	57,655
Other borrowed funds.....	29,468	29,468
Interest payable .....	6,019	6,019

48

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 19

CONDENSED FINANCIAL INFORMATION (parent company only)

Presented below is condensed financial information as to financial position, results of operations, and cash flows of the Corporation:

CONDENSED BALANCE SHEET

	December 31,	
	2002	2001
=====		
Assets		
Cash .....	\$ 4,404	\$ 3,041
Investment securities available for sale.....	3,500	3,500
Investment in subsidiaries .....	320,309	180,423
Goodwill .....	448	448
Other assets .....	12,265	1,396
	-----	-----
Total assets .....	\$340,926	\$188,808
	=====	=====
Liabilities		
Borrowings .....	\$ 74,132	\$ 8,500
Other liabilities .....	5,665	1,180
	-----	-----
Total liabilities .....	79,797	9,680
Stockholders' equity .....	261,129	179,128
	-----	-----
Total liabilities and stockholders' equity .....	\$340,926	\$188,808
	=====	=====

CONDENSED STATEMENT OF INCOME

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

2002

Income	
Dividends from subsidiaries .....	\$ 22,720
Administrative services fees.....	6,580
Other income .....	535
Total income .....	29,835
Expenses	
Amortization of core deposit intangibles, goodwill, and fair value adjustments .....	28
Interest expense.....	3,858
Salaries and employee benefits.....	7,641
Net occupancy expenses.....	1,527
Equipment expenses.....	1,447
Telephone expenses.....	1,543
Other expenses.....	2,767
Total expenses .....	18,811
Income before income tax benefit and equity in undistributed income of subsidiaries .....	11,024
Income tax benefit .....	4,336
Income before equity in undistributed income of subsidiaries .....	15,360
Equity in undistributed (distributions in excess of) income of subsidiaries .....	12,476
Net Income .....	\$ 27,836

49

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

NOTE 19

CONDENSED FINANCIAL INFORMATION (parent company only)

CONDENSED STATEMENT OF CASH FLOWS

	Year Ended De	
	2002	2001
Operating activities:		
Net income .....	\$ 27,836	\$ 22,2
Adjustments to reconcile net income to net cash		

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

provided by operating activities:		
Amortization .....	28	
Distributions in excess of (equity in undistributed)		
income of subsidiaries .....	(12,476)	(4,3
Net change in:		
Other assets .....	(6,892)	(1,2
Other liabilities .....	4,430	(8
	-----	-----
Net cash provided by operating activities .....	12,926	15,7
	-----	-----
Investing activities:		
Net change in loans .....		
Purchase of securities available for sale.....		(3,5
Proceeds from sales of securities available for sale .....		
Investment in subsidiary .....	(51,135)	(14,2
	-----	-----
Net cash used by investing activities .....	(51,135)	(17,7
	-----	-----
Financing activities:		
Cash dividends .....	(13,995)	(11,1
Borrowing from affiliates .....		
Repayment of borrowings from affiliates .....		
Borrowings.....	55,832	8,5
Stock issued under employee benefit plans .....	658	5
Stock issued under dividend reinvestment		
and stock purchase plan .....	951	8
Stock options exercised .....	494	2
Stock redeemed .....	(4,333)	(7,0
Cash paid in lieu of issuing fractional shares .....	(35)	(
	-----	-----
Net cash provided (used) by financing activities .....	39,572	(8,1
	-----	-----
Net change in cash .....	1,363	(10,1
Cash, beginning of year .....	3,041	13,1
	-----	-----
Cash, end of year .....	\$ 4,404	\$ 3,0
	=====	=====

NOTE 20

QUARTERLY RESULTS OF OPERATIONS (unaudited)

The following table sets forth certain quarterly results for the years ended December 31, 2002 and 2001:

QUARTER ENDED	INTEREST INCOME	INTEREST EXPENSE	NET INTEREST INCOME	PROVISION FOR LOAN LOSSES	NET INCOME	AVERAGE SHARES
						BASIC
2002:						
March .....	\$ 27,591	\$ 10,213	\$ 17,378	\$ 1,192	\$ 5,479	13,417,284
June .....	39,678	14,596	25,082	1,284	7,940	16,306,998
September.....	40,148	14,820	25,328	1,821	7,827	16,265,998
December.....	39,265	14,130	25,135	2,877	6,590	16,312,476
	-----	-----	-----	-----	-----	-----
	\$ 146,682	\$ 53,759	\$ 92,923	\$ 7,174	\$ 27,836	15,585,512
	=====	=====	=====	=====	=====	=====
2001:						
March .....	\$ 30,088	\$ 15,399	\$ 14,689	\$ 653	\$ 5,106	12,786,906
June .....	29,267	13,997	15,270	695	5,574	12,626,115
September.....	31,558	14,296	17,262	1,023	6,020	13,346,954

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

December.....	29,522	12,382	17,140	1,205	5,509	13,310,613
	-----	-----	-----	-----	-----	
	\$ 120,435	\$ 56,074	\$ 64,361	\$ 3,576	\$ 22,209	13,019,984
	=====	=====	=====	=====	=====	

50

=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(table dollar amounts in thousands, except share data)

=====

NOTE 21

SUBSEQUENT EVENT

Effective January 1, 2003, the Corporation formed Merchants Trust Company, National Association ("MTC"), a wholly-owned subsidiary of the Corporation, through a capital contribution totaling approximately \$2,038,000. On January 1, 2003, MTC purchased the trust operations of First Merchants, First National and Lafayette for a fair value acquisition price of \$20,687,000. MTC unites the trust and asset management services of all affiliate banks of the Corporation. All intercompany transactions related to this purchase by MTC will be eliminated in the consolidated financial statements of the Corporation.

51

=====

STOCKHOLDER INFORMATION

=====

First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana. It was organized in September, 1982, as the bank holding company for Merchants National Bank of Muncie, now First Merchants Bank, National Association. Since its organization, First Merchants Corporation has grown to include nine affiliate banks with 69 locations in 18 Indiana counties and one Ohio county, a multi-line insurance agency, a title insurance company and a trust company.

Subsidiaries of the Corporation include First Merchants Bank, National Association in Delaware and Hamilton Counties, The Madison Community Bank in Madison County, First United Bank in Henry County, The Union County National Bank of Liberty (with offices in Union, Fayette, Wayne and Oxford (OH) Counties), The Randolph County Bank, The First National Bank of Portland in Jay County, Decatur Bank & Trust Company in Adams County, Frances Slocum Bank and Trust Company (with offices in Wabash, Howard and Miami Counties) and Lafayette Bank and Trust Company (with offices in Carroll, Jasper, White and Tippecanoe Counties). The Corporation also operates First Merchants Insurance Services, a full-service property casualty, personal lines, and healthcare insurer, headquartered in Muncie, Indiana, and is a majority owner of the Indiana Title Insurance Company, LLC, a title insurance agency.

Effective January 1, 2003, First Merchants Corporation formed Merchants Trust Company, National Association. This unites the trust and asset management

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

services of all affiliate banks of the Corporation and represents one of the largest trust companies in the state of Indiana, with assets in excess of \$1.3 billion. Merchants Trust Company provides a full range of trust and investment services for individuals, families, businesses, and not-for-profit organizations. In addition, Merchants Trust Company specializes in turn-key retirement plans, including pension plans, profit sharing, 401(k) and 403(b) plans, cross-tested plans, and cash balance plans.

First Merchants Corporation is one of only two Indiana-based companies listed among America's Finest Companies, an investment guide published by The Staton Institute. First Merchants continues to receive an A+ rating from Standard & Poor's for its common stock (NASDAQ symbol FRME) and Blue Ribbon status for all affiliate banks from independent bank-rating service Veribanc. At the end of 2002, First Merchants Corporation has accomplished 27 years of consecutive increased earnings.

First Merchants Corporation's operating philosophy is to be client focused, value driven, plan disciplined, and managed for achievers from both an employee and shareholder perspective.

Corporate Office  
200 East Jackson Street  
Muncie, Indiana 47305

765-747-1500  
<http://www.firstmerchants.com>

=====

ANNUAL MEETING, STOCK PRICE & DIVIDEND INFORMATION

=====

First Merchants Corporation currently provides services through 69 offices located in Adams, Delaware, Carroll, Fayette, Hamilton, Henry, Howard, Boone, Jasper, Jay, Madison, Miami, Wabash, Wayne, White, Randolph, Tippecanoe and Union counties in Indiana and Butler County in Ohio.

The 2003 Annual Meeting of Stockholders of First Merchants Corporation will be held...

Thursday, April 10, 2003 at 3:30 p.m.

Horizon Convention Center  
401 South High Street  
Muncie, Indiana

STOCK INFORMATION

QUARTER	HIGH		PRICE PER SHARE LOW	
	2002	2001	2002	2001
-----	-----	-----	-----	-----

## Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

First Quarter .....	\$ 25.76	\$ 22.90	\$ 20.95	\$ 18.99
Second Quarter .....	28.71	21.70	24.29	19.72
Third Quarter .....	28.75	23.57	21.43	19.96
Fourth Quarter .....	25.47	23.78	21.66	21.57

- (1) The Liquidity section of Management's Discussion & Analysis of Financial Condition and Results of Operations and Note 14 to Consolidated Financial Statements include discussions regarding dividend restrictions from the bank subsidiaries to the Corporation.

The table above lists per share prices and dividend payments during 2002 and 2001. Prices are as reported by the National Association of Securities Dealers. Automated Quotation - National Market System.

Numbers rounded to nearest cent when applicable.

53

=====

### COMMON STOCK LISTING & MARKET MAKERS

=====

#### COMMON STOCK LISTING

First Merchants Corporation common stock is traded over-the-counter on the NASDAQ National Market System. Quotations are carried in many daily papers. The NASDAQ symbol is FRME (Cusip #320817-10-9). At the close of business on January 31, 2003, the number of shares outstanding was 16,323,429. There were 2,890 stockholders of record on that date.

General stockholder inquiries

Stockholders and interested investors may obtain information about the Corporation upon written request or by calling:

Mr. Brian Edwards  
Shareholder Relations Officer  
First Merchants Corporation  
P. O. Box 792  
Muncie, Indiana 47308-0792  
765-741-7278  
1-800-262-4261 Ext. 7278  
Stock transfer agent and registrar  
American Stock Transfer & Trust Company  
59 Maiden Lane, 1st Floor  
New York, NY 10038

#### MARKET MAKERS

The following firms make a market in First Merchants Corporation stock:

First Tennessee Securities  
Geduld, LLC  
Keefe, Bruyette & Woods, Inc.  
Knight Securities, L.P.  
Herzog, Heine, Geduld, Inc.  
Howe Barnes Investments, Inc.

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

Sandler O'Neill & Partners  
NatCity Investments, Inc.  
RBC Capital Markets  
Spear, Leeds, & Kellogg  
Stifel, Nicolaus & Company, Inc.

54

=====

FORM 10-K AND FINANCIAL INFORMATION

=====

FORM 10-K AND FINANCIAL INFORMATION

First Merchants Corporation, upon request and without charge, will furnish stockholders, security analysts and investors a copy of Form 10-K filed with the Securities and Exchange Commission.

The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the commission, including the Corporation; that address is <http://www.sec.gov>

Please contact:  
Mr. Mark Hardwick  
Senior Vice President  
and Chief Financial Officer

First Merchants Corporation  
P. O. Box 792  
Muncie, Indiana 47308-0792

765-751-1857  
1-800-262-4261 Ext. 1857

55