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FIRST MERCHANTS CORP
Form 8-K
October 22, 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): October 22, 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 99.1 Press Release, dated October 22, 2003, issued by
First Merchants Corporation

ITEM 9. REGULATION FD DISCLOSURE (INFORMATION PROVIDED UNDER ITEM 12 - RESULTS
OF OPERATIONS AND FINANCIAL CONDITION).

The following information is being provided under Item 12 - Results of
Operations and Financial Condition. It is being furnished under Item 9
of this Form 8-K in accordance with interim guidance issued by the SEC
in Release No. 33-8216. Such information, including the Exhibit
attached hereto, shall not be deemed "filed" for purposes of Section 18
of the Securities Exchange Act of 1934.

On October 22, 2003, First Merchants Corporation issued a press release
to report its financial results for the quarter ended September 30,
2003. The release is furnished as Exhibit 99.1 hereto.

SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

By: /s/ Larry R. Helms

Larry R. Helms, Senior Vice President

Dated: October 22, 2003

EXHIBIT INDEX

Exhibit No.

99.1

Description

Press Release, dated October 22, 2003, issued by
First Merchants Corporation.

First Merchants Corporation

Exhibit No. 99.1

Press Release, dated October 22, 2003

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

October 22, 2003

FOR IMMEDIATE RELEASE

For more information, contact:

Mark K. Hardwick, Senior Vice President/Chief Financial Officer

765-751-1857

<http://firstmerchants.com>

SOURCE: First Merchants Corporation

FIRST MERCHANTS ANNOUNCES 3rd QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported that third quarter 2003 diluted earnings per share equaled \$.39, a decrease of 15.2%, from \$.46 in the prior year. Net income decreased \$478,000, or 6.1%, during the same period.

Year-to-date diluted earnings were \$1.19 per share compared to \$1.31 in 2002. Year-to-date net income increased \$512,000, or 2.4%, from \$21,240,000 to \$21,752,000.

Net interest margin for the nine months ended September 30, 2003 declined 34 basis points as the Corporation's yield on earning assets declined 83 basis points and the cost of supporting liabilities declined by 49 basis points.

For the quarter, net interest margin declined 47 basis points as the Corporation's yield on earning assets declined 1.03 percent and the cost of

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supporting liabilities declined by 56 basis points.

Year-to-date gains from the sale of mortgage loans increased from \$990,000 to \$5,618,000, and the provision for loan losses increased from \$4,297,000 to \$8,430,000.

For the quarter, gains from the sale of mortgage loans increased by \$876,000 and the provision for loan losses decreased by \$115,000.

Michael L. Cox, President and Chief Executive Officer, commented that, "Changes in the yield curve, during the quarter, increased pressure on earnings as the Corporation maintains an asset sensitive interest rate risk position. This position has increased our dependence on gains generated from the sales of mortgage loans during this record low interest rate environment. The Federal Reserve Bank's reduction in the target fed funds rate of 25-basis points, during the last week of June, coupled with more than a 100-basis point increase in the 30-year treasury and mortgage rates, have proven to be challenging."

Total loans outstanding reached \$2.4 billion, an increase of \$355 million over the prior year. Of the increase, \$318 million is attributable to the acquisition of CNBC Bancorp on March 1, 2003. The remaining net increase of \$37 million resulted primarily from increased commercial real estate loans outstanding of \$55 million, mitigated by reductions in both residential real estate loans and individual loans for household and other personal expenditures.

Total non-performing assets decreased from 1.21% of total loans in the third quarter of 2002 to 1.13% as of September 30, 2003. The Corporation's allowance for loan losses increased to 1.27% versus 1.10% during the same period last year.

During the quarter, the Corporation completed a sale of non-performing loans. The sale reduced non-performing loans by \$2 million and significantly reduced classified assets in one bank. Additionally, the remaining banks in the Corporation reduced non-performing loans by another \$1.7 million.

The Corporation's Board of Directors also authorized management to proceed with its strategic initiative of minimizing the number of regulatory agencies governing its banks. The Corporation is in the process of converting all of its state chartered banks to National Charters. The Office of the Comptroller of the Currency and the Federal Reserve Bank will be the remaining regulators once the conversion is complete.

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Standard Time on Wednesday, October 22, 2003. To participate, dial 888-710-8192 and reference First Merchants Corporation's third quarter earnings release. A digital recording will be available two hours after the completion of the conference from October 22, 2003, to October 24, 2003. To access, US/Canada guests should call 800-642-1687; or for International/Local guests, call 706-645-9291 and enter the Conference I.D. 3236274.

Detailed financial results are reported on the attached pages.

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

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insurance agency, headquartered in Muncie, Indiana, and is a majority member of Indiana Title Insurance Company, LLC, a title insurance agency.

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

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CONSOLIDATED BALANCE SHEETS

(in thousands)

September 30,

	2003	2002
Assets		
Cash and due from banks	\$ 87,619	\$ 73,223
Federal funds sold	0	8,750
	-----	-----
Cash and cash equivalents	87,619	81,973
Interest-bearing time deposits	3,789	10,222
Investment securities	316,852	345,452
Mortgage loans held for sale	12,042	14,089
Loans, net of allowance for loan losses of \$29,842 and \$22,147	2,321,563	1,971,891
Premises and equipment	39,475	39,179
Federal Reserve and Federal Home Loan Bank stock	14,057	11,097
Interest receivable	17,139	18,622
Core deposit intangibles and goodwill	143,648	106,753
Cash surrender value of life insurance	37,536	14,143
Other assets	18,000	16,065
	-----	-----
Total assets	\$ 3,011,720	\$ 2,629,486
	=====	=====
Liabilities		
Deposits		
Noninterest-bearing	\$ 316,058	\$ 246,410
Interest-bearing	1,994,146	1,773,325
	-----	-----
Total deposits	2,310,204	2,019,735
Borrowings	374,051	328,933
Interest payable	5,200	6,813
Other liabilities	21,064	14,132
	-----	-----
Total liabilities	2,710,519	2,369,613
Stockholders' equity		
Preferred stock, no-par value		
Authorized and unissued -- 500,000 shares		
Common stock, \$.125 stated value		
Authorized -- 50,000,000 shares		
Issued and outstanding - 18,487,974 and 17,124,914	2,311	2,141
Additional paid-in capital	149,810	116,102
Retained earnings	147,559	135,266
Accumulated other comprehensive income	1,521	6,364
	-----	-----
Total stockholders' equity	301,201	259,873
	-----	-----
Total liabilities and stockholders' equity	\$ 3,011,720	\$ 2,629,486

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FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
NET CHARGE OFF'S	\$ 2,503	\$ 1,637	\$ 4,732	\$ 4,193
AVERAGE BALANCES				
Total Assets	\$3,030,935	\$2,635,606	\$2,923,015	\$2,319,049
Total Loans	2,348,817	1,984,323	2,258,725	1,766,879
Total Deposits	2,305,589	2,018,242	2,221,870	1,800,894
Total Stockholders' Equity	301,048	254,654	290,503	229,634
FINANCIAL RATIOS				
Return on Average Assets	0.97%	1.19%	0.99%	1.22%
Return on Avg. Stockholders' Equity	9.76	12.40	9.98	12.45
Avg. Earning Assets to Avg. Assets	89.48	90.27	89.92	91.11
Allowance for Loan Losses as % Of Total Loans	1.26	1.10	1.26	1.10
Net Charge Off's as % Of Avg. Loans (Annualized)	.43	.32	.28	.32
Dividend Payout Ratio	58.97	47.83	56.30	50.38
Avg. Stockholders' Equity to Avg. Assets	9.93	9.58	9.94	9.81
Tax Equivalent Yield on Earning Assets	5.89	6.92	6.11	6.94
Cost of Supporting Liabilities	1.93	2.49	2.01	2.50
Net Int. Margin (FTE) on Earning Assets	3.96	4.43	4.10	4.44

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Interest Income				
Loans receivable				
Taxable	\$ 35,607	\$ 35,362	\$106,539	\$ 94,111
Tax exempt	185	169	512	481
Investment securities				
Taxable	1,342	2,442	4,621	6,111
Tax exempt	1,562	1,793	4,819	4,111
Federal funds sold	49	123	339	111
Deposits with financial institutions	13	53	54	111
Federal Reserve and Federal Home Loan Bank stock	201	206	610	111
	-----	-----	-----	-----
Total interest income	38,959	40,148	117,494	107,111

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Interest expense	-----	-----	-----	-----
Deposits	8,623	10,696	26,555	29
Securities sold under repurchase agreements	370	517	1,273	1
Federal Home Loan Bank advances	2,409	2,283	7,077	5
Trust preferred securities	1,232	1,181	3,697	2
Other borrowings	451	143	1,053	
	-----	-----	-----	-----
Total interest expense	13,085	14,820	39,655	39
	-----	-----	-----	-----
Net interest income	25,874	25,328	77,839	67
Provision for loan losses	1,706	1,821	8,430	4
	-----	-----	-----	-----
Net interest income				
after provision for loan losses	24,168	23,507	69,409	63
	-----	-----	-----	-----
Other income				
Fiduciary activities	1,547	1,651	5,133	4
Service charges on deposit accounts	2,861	2,626	8,388	6
Other customer fees	961	957	3,085	2
Net realized gains on				
sales of available-for-sale securities	512	162	950	
Commission income	638	557	2,099	1
Other income	2,357	1,693	8,660	3
	-----	-----	-----	-----
Total other income	8,876	7,646	28,315	19
	-----	-----	-----	-----
Other expenses				
Salaries and employee benefits	13,206	10,606	37,885	28
Net occupancy expenses	1,189	999	3,480	2
Equipment expenses	1,996	1,880	5,856	4
Marketing expense	414	415	1,259	1
Deposit insurance expense		143		
Outside data processing fees	1,025	1,018	3,055	2
Printing and office supplies	401	388	1,240	1
Goodwill and core deposit amortization	958	786	2,777	1
Other expenses	3,771	2,952	11,784	8
	-----	-----	-----	-----
Total other expenses	22,960	19,187	67,336	51
	-----	-----	-----	-----
Income before income tax	10,084	11,966	30,388	32
Income tax expense	2,735	4,139	8,636	10
	-----	-----	-----	-----
Net income	\$ 7,349	\$ 7,827	\$ 21,752	\$ 21
	=====	=====	=====	=====
Per Share Data (1)				
Basic Net Income	.40	.47	1.20	
Diluted Net Income	.39	.46	1.19	
Cash Dividends Paid	.23	.22	.67	

(1) Restated for a five percent (5%) stock dividend distributed September 2003.

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CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30, 2003	June 30, 2003	March 31, 2003	December 31, 2002
Assets				
Cash and due from banks	\$ 87,619	\$ 89,126	\$ 81,789	\$ 87,619
Federal funds sold	0	14,150	54,925	31,419
	-----	-----	-----	-----
Cash and cash equivalents	87,619	103,276	136,714	119,038
Interest-bearing time deposits	3,789	8,777	5,170	3,511
Investment securities	316,852	363,103	333,692	342,011
Mortgage loans held for sale	12,042	15,151	13,558	21,511
Loans	2,351,405	2,324,576	2,291,178	2,004,311
Less: Allowance for loan losses	(29,842)	(30,639)	(29,733)	(22,411)
	-----	-----	-----	-----
Net loans	2,321,563	2,293,937	2,261,445	1,981,900
Premises and equipment	39,475	39,313	38,861	38,611
Federal Reserve and Federal Home Loan Bank stock	14,057	13,933	13,912	11,411
Interest receivable	17,139	16,592	16,789	17,311
Core deposit intangibles and goodwill	143,648	144,663	141,226	107,211
Cash surrender value of life insurance	37,536	34,575	14,567	14,311
Other assets	18,000	23,641	23,088	21,511
	-----	-----	-----	-----
Total assets	\$ 3,011,720	\$ 3,056,961	\$ 2,999,022	\$ 2,678,611
	=====	=====	=====	=====
Liabilities				
Deposits				
Noninterest-bearing	\$ 316,058	\$ 324,735	\$ 289,835	\$ 272,111
Interest-bearing	1,994,146	1,988,593	1,996,836	1,764,511
	-----	-----	-----	-----
Total deposits	2,310,204	2,313,328	2,286,671	2,036,622
Borrowings	374,051	417,669	388,821	356,911
Interest payable	5,200	5,494	5,694	6,011
Other liabilities	21,064	19,460	28,212	17,911
	-----	-----	-----	-----
Total liabilities	2,710,519	2,755,951	2,709,398	2,417,554
Stockholders' equity				
Preferred stock, no-par value				
Authorized and unissued -- 500,000 shares				
Common stock, \$.125 stated value				
Authorized -- 50,000,000 shares				
Issued and outstanding	2,311	2,301	2,298	2,111
Additional paid-in capital	149,810	148,296	143,505	116,411
Retained earnings	147,559	144,457	139,743	138,111
Accumulated other comprehensive income	1,521	5,956	4,078	4,411
	-----	-----	-----	-----
Total stockholders' equity	301,201	301,010	289,624	261,111
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$ 3,011,720	\$ 3,056,961	\$ 2,999,022	\$ 2,678,611
	=====	=====	=====	=====

NON-PERFORMING ASSETS

(In thousands)

September 30, 2003 June 30, 2003 March 31, 2003 December 31, 2002 September 30, 2001

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90 days past due	\$	4,790	\$	5,295	\$	3,552	\$	6,676	\$	9,134
Non-accrual loans		20,093		22,532		19,747		14,134		13,841
Other real estate		1,547		2,351		1,841		1,691		1,691
		-----		-----		-----		-----		-----
Total non-performing assets	\$	26,430	\$	30,178	\$	25,140	\$	22,501	\$	23,266
		=====		=====		=====		=====		=====
Average total loans for the quarter	\$	2,348,817	\$	2,313,688	\$	2,111,056	\$	2,066,616	\$	1,984,817
Total non-performing assets as a percent of average total loans		1.13%		1.30%		1.19%		1.09%		1.17%
Restructured loans	\$	647	\$	899	\$	2,194	\$	2,508	\$	2,194

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	Three Months Ended			
	September 30, 2003	June 30, 2003	March 31, 2003	December 31, 2002
Interest Income				
Loans receivable				
Taxable	\$ 35,607	\$ 35,759	\$ 35,173	\$ 34,775
Tax exempt	185	162	165	235
Investment securities				
Taxable	1,342	1,600	1,679	2,100
Tax exempt	1,562	1,626	1,631	1,740
Federal funds sold	49	177	113	169
Deposits with financial institutions	13	19	22	38
Federal Reserve and Federal Home Loan Bank stock	201	211	198	208
	-----	-----	-----	-----
Total interest income	38,959	39,554	38,981	39,265
	-----	-----	-----	-----
Interest expense				
Deposits	8,623	9,048	8,884	9,934
Securities sold under repurchase agreements	370	454	449	502
Federal Home Loan Bank advances	2,409	2,395	2,273	2,359
Trust preferred securities	1,232	1,259	1,206	1,181
Other borrowings	451	443	159	154
	-----	-----	-----	-----
Total interest expense	13,085	13,599	12,971	14,130
	-----	-----	-----	-----
Net interest income	25,874	25,955	26,010	25,135
Provision for loan losses	1,706	2,123	4,601	2,877
	-----	-----	-----	-----
Net interest income after provision for loan losses	24,168	23,832	21,409	22,258
	-----	-----	-----	-----
Other income				
Fiduciary activities	1,547	1,889	1,697	1,487
Service charges on deposit accounts	2,861	2,743	2,784	2,695

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Other customer fees	961	1,036	1,088	993
Net realized gains on sales of available-for-sale securities	512	67	371	169
Commission income	638	707	754	586
Other income	2,357	4,711	1,592	1,286
	-----	-----	-----	-----
Total other income	8,876	11,153	8,286	7,216
	-----	-----	-----	-----
Other expenses				
Salaries and employee benefits	13,206	12,902	11,777	10,849
Net occupancy expenses	1,189	1,200	1,091	933
Equipment expenses	1,996	2,016	1,844	1,861
Marketing expense	414	411	434	416
Deposit insurance expense	0			104
Outside data processing fees	1,025	1,102	928	940
Printing and office supplies	401	432	407	442
Goodwill and core deposit amortization	958	991	828	750
Other expenses	3,771	3,881	4,132	3,591
	-----	-----	-----	-----
Total other expenses	22,960	22,935	21,441	19,886
	-----	-----	-----	-----
Income before income tax	10,084	12,050	8,254	9,588
Income tax expense	2,735	3,305	2,596	2,998
	-----	-----	-----	-----
Net income	\$ 7,349	\$ 8,745	\$ 5,658	\$ 6,590
	=====	=====	=====	=====
Per Share Data(1)				
Basic Net Income	\$.40	\$.48	\$.32	\$.38
Diluted Net Income	.39	.48	.32	.38
Cash Dividends Paid	.23	.22	.22	.22

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(1) Restated for a five percent (5%) stock dividend distributed September 2003.