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FIRST MERCHANTS CORP
Form 8-K
July 23, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

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

DATE OF REPORT (Date of earliest event reported): July 23, 2008

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

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

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

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

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

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

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

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On July 23, 2008 First Merchants Corporation issued a press release to report its financial results for the second quarter ended June 30, 2008. A copy

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

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

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

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

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

SIGNATURES

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

First Merchants Corporation
(Registrant)

By: /s/ Mark K. Hardwick

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

Dated: July 23, 2008

EXHIBIT INDEX

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

First Merchants Corporation

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Exhibit No. 99.1

Press Release, dated July 23, 2008

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

July 23, 2008

FOR IMMEDIATE RELEASE

For more information, contact:

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

SOURCE: First Merchants Corporation, Muncie, Indiana

FIRST MERCHANTS CORPORATION ANNOUNCES 5.9 PERCENT INCREASE IN SECOND QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported second quarter 2008 diluted earnings per share of \$.36, a 5.9 percent increase over 2007 second quarter earnings per share of \$.34. Net Income for the quarter totaled \$6.5 million, an increase of \$334,000.

Year-to-date diluted earnings per share totaled \$.81, a 6.6 percent increase over 2007 first half earnings per share of \$.76. Net Income totaled \$14.7 million, an increase of \$689,000.

Total assets reached \$3.8 billion at quarter-end, an increase of \$153 million, or 4.2 percent, from June 30, 2007. Loans and investments, the Corporation's primary earning assets, totaled \$3.43 billion, an increase of \$142 million, or 4.3 percent over the prior year. Loans accounted for \$213 million of the increase as investment securities declined by \$71 million as spreads between investment securities and borrowings remain below historical levels.

Net-Interest margin expanded by 35 basis points from 3.50 percent in the second quarter of 2007 to 3.85 percent in 2008. As a result, net-interest income increased by \$4.6 million or 16.5 percent. On March 21, 2008 the Corporation reported on form 8-K the sale of three prime-based interest rate floors. For the quarter, \$561,000 of the \$4.7 million gain was recognized in the Corporation's net interest margin. The remaining \$3.6 million will be recognized over the 13 months of the original contracts.

Total non-interest income increased by \$568,000, or 5.8 percent, during the quarter and total expenses declined by \$1.3 million. In the second quarter of 2007 the Corporation expensed \$1.8 million of underwriting expense related to the early redemption of the Corporation's trust preferred securities and \$601,000 of expense related to integration and re-branding initiatives.

Provision expense increased by \$5.4 million, during the quarter as net charge-offs totaled \$4.6 million. Non-performing assets increased from 93 basis points of total assets to 135 basis points during the quarter and the allowance for loan losses as a percent of total loans increased to 1.05 percent.

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Michael C. Rechin, President and Chief Executive Officer, stated that, "Despite the state of the banking industry and the continuation of negative press regarding peer institutions, First Merchants remains confident in its ability to produce net income sufficient to maintain adequate capital levels, dividend payouts and a growing balance sheet." Rechin also added that, "We continue to manage our loan portfolio rigorously recognizing that declines in client cash

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flows require current valuations of collateral and guarantee positions of our secondary sources of repayment. As we identify deficiencies in primary and secondary sources of repayment the loans are placed on non-accrual and specific reserves are applied to match the shortfall. First Merchants continues to maintain its earnings momentum while at the same time very prudently addressing any required credit costs as reflected in our year-to-date results."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Daylight Time on Wednesday, July 23, 2008. To participate, dial (Toll Free) 800-860-2442 and reference First Merchants Corporation's second quarter earnings. A replay will be available until July 30, 2008. To access replay, US/Canada participants should dial (Toll Free) 877-344-7529 or for International participants, dial 412-317-0088. The replay will require the passcode is 420850.

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

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

Detailed financial results are reported on the attached pages:

First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana. Subsidiaries of the Corporation include First Merchants Bank, N.A., First Merchants Bank of Central Indiana, N.A., Lafayette Bank & Trust Company, N.A., Commerce National Bank and First Merchants Trust Company, N.A. The Corporation also operates First Merchants Insurance Services, a full-service property casualty, personal lines, and healthcare insurance agency and is a majority member of Indiana Title Insurance Company, LLC, a title insurance agency.

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

* * * *

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CONSOLIDATED BALANCE SHEETS (in thousands)

| | June 30, | |
|--------------------------------|-----------|-----------|
| | 2008 | 2007 |
| Assets | | |
| Cash and due from banks | \$ 80,996 | \$ 80,264 |
| Federal funds sold | | 657 |
| | ----- | ----- |
| Cash and cash equivalents | 80,996 | 80,921 |
| Interest-bearing time deposits | 7,267 | 8,898 |
| Investment securities | 408,324 | 479,281 |
| Mortgage loans held for sale | 3,234 | 2,842 |
| Loans | 3,018,596 | 2,806,068 |

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| | | |
|-------------------------------------------------------------------|--------------|--------------|
| Less: Allowance for loan losses | (31,597) | (27,608) |
| | ----- | ----- |
| Net loans | 2,986,999 | 2,778,460 |
| Premises and equipment | 44,232 | 44,126 |
| Federal Reserve and Federal Home Loan Bank stock | 25,455 | 23,822 |
| Interest receivable | 19,680 | 21,615 |
| Core deposit intangibles and goodwill | 136,230 | 137,056 |
| Cash surrender value of life insurance | 72,948 | 69,111 |
| Other real estate owned | 17,243 | 2,274 |
| Other assets | 19,852 | 21,109 |
| | ----- | ----- |
| Total assets | \$ 3,822,460 | \$ 3,669,515 |
| | ===== | ===== |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | \$ 403,152 | \$ 362,083 |
| Interest-bearing | 2,460,483 | 2,357,518 |
| | ----- | ----- |
| Total deposits | 2,863,635 | 2,719,601 |
| Borrowings | | |
| Fed funds purchased | 151,356 | 125,650 |
| Securities sold under repurchase agreements | 90,872 | 91,038 |
| Federal Home Loan Bank advances | 228,196 | 268,680 |
| Subordinated debentures, revolving credit lines and term loans | 115,826 | 102,206 |
| | ----- | ----- |
| Total borrowings | 586,250 | 587,574 |
| Interest payable | 6,658 | 10,417 |
| Other liabilities | 18,525 | 24,543 |
| | ----- | ----- |
| Total liabilities | 3,475,068 | 3,342,135 |
| Stockholders' equity | | |
| Preferred stock, no-par value | | |
| Authorized and unissued -- 500,000 shares | | |
| Cumulative Preferred Stock, \$1,000 par value: | | |
| Authorized -- 600 shares | | |
| Issued and outstanding -- 125 shares | 125 | |
| Common stock, \$.125 stated value | | |
| Authorized -- 50,000,000 shares | | |
| Issued and outstanding -- 18,062,701 and 18,285,359 shares | 2,258 | 2,286 |
| Additional paid-in capital | 140,258 | 143,317 |
| Retained earnings | 209,059 | 193,460 |
| Accumulated other comprehensive loss | (4,308) | (11,683) |
| | ----- | ----- |
| Total stockholders' equity | 347,392 | 327,380 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 3,822,460 | \$ 3,669,515 |
| | ===== | ===== |

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FINANCIAL HIGHLIGHTS

| (In thousands) | Three Months Ended | | Six Months Ended | |
|----------------|--------------------|------------------|------------------|------------------|
| | 2008 | June 30, 2007 | 2008 | June 30, 2007 |

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| | | | | | | | | |
|----------------------------|----|-----------|----|-----------|----|-----------|----|----------|
| NET CHARGE OFF'S | \$ | 4,567 | \$ | 859 | \$ | 7,524 | \$ | 2,17 |
| AVERAGE BALANCES | | | | | | | | |
| Total Assets | \$ | 3,770,260 | \$ | 3,601,473 | \$ | 3,764,296 | \$ | 3,562,12 |
| Total Loans | | 2,973,270 | | 2,764,209 | | 2,940,716 | | 2,733,84 |
| Total Deposits | | 2,835,076 | | 2,729,145 | | 2,835,625 | | 2,709,63 |
| Total Stockholders' Equity | | 350,800 | | 329,613 | | 347,761 | | 328,98 |

FINANCIAL RATIOS

| | | | | | | | | |
|------------------------------------------|--|-------|--|-------|--|-------|--|------|
| Return on Average Assets | | .69% | | .69% | | .78% | | .7 |
| Return on Avg. Stockholders' Equity | | 7.46 | | 7.53 | | 8.44 | | 8.5 |
| Avg. Earning Assets to Avg. Assets | | 90.94 | | 90.96 | | 90.66 | | 91.0 |
| Allowance for Loan Losses as % | | | | | | | | |
| Of Total Loans | | 1.05 | | .98 | | 1.05 | | .9 |
| Net Charge Off's as % Of Avg. Loans | | | | | | | | |
| (Annualized) | | .61 | | .12 | | .51 | | .1 |
| Dividend Payout Ratio | | 63.85 | | 67.65 | | 56.79 | | 60.5 |
| Avg. Stockholders' Equity to Avg. Assets | | 9.30 | | 9.15 | | 9.24 | | 9.2 |
| Tax Equivalent Yield on Earning Assets | | 6.41 | | 7.09 | | 6.60 | | 7.0 |
| Cost of Supporting Liabilities | | 2.56 | | 3.59 | | 2.80 | | 3.5 |
| Net Int. Margin (FTE) on Earning Assets | | 3.85 | | 3.50 | | 3.80 | | 3.5 |

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CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------------------------------------|--------------------------------|-----------|------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Interest income | | | | |
| Loans receivable | | | | |
| Taxable | \$ 49,023 | \$ 51,204 | \$ 100,124 | \$ 100,124 |
| Tax exempt | 178 | 249 | 343 | 343 |
| Investment securities | | | | |
| Taxable | 2,947 | 3,394 | 6,196 | 6,196 |
| Tax exempt | 1,452 | 1,651 | 2,965 | 2,965 |
| Federal funds sold | 3 | 91 | 11 | 11 |
| Deposits with financial institutions | 133 | 120 | 415 | 415 |
| Federal Reserve and Federal Home Loan Bank stock | 370 | 299 | 705 | 705 |
| Total interest income | 54,106 | 57,008 | 110,759 | 110,759 |
| Interest expense | | | | |
| Deposits | 16,297 | 22,390 | 35,730 | 35,730 |
| Federal funds purchased | 577 | 1,047 | 1,246 | 1,246 |
| Securities sold under repurchase agreements | 632 | 910 | 1,448 | 1,448 |
| Federal Home Loan Bank advances | 2,825 | 3,009 | 5,861 | 5,861 |
| Subordinated debentures, revolving credit lines and term loans | 1,602 | 2,037 | 3,492 | 3,492 |
| Total interest expense | 21,933 | 29,393 | 47,777 | 47,777 |
| Net interest income | 32,173 | 27,615 | 62,982 | 62,982 |
| Provision for loan losses | 7,070 | 1,648 | 10,893 | 10,893 |
| Net interest income | | | | |

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| | | | | |
|-----------------------------------------------|----------|----------|-----------|-------|
| after provision for loan losses | 25,103 | 25,967 | 52,089 | 5 |
| | ----- | ----- | ----- | --- |
| Other income | | | | |
| Service charges on deposit accounts | 3,157 | 3,091 | 6,088 | |
| Fiduciary activities | 2,126 | 2,257 | 4,268 | |
| Other customer fees | 1,767 | 1,535 | 3,446 | |
| Commission income | 1,427 | 1,269 | 3,096 | |
| Earnings on cash surrender value | | | | |
| of life insurance | 606 | 782 | 1,344 | |
| Net gains and fees on sales of loans | 668 | 611 | 1,311 | |
| Net realized gains (losses) on sale of | | | | |
| available-for-sale securities | 13 | | 86 | |
| Other income | 570 | 221 | 1,222 | |
| | ----- | ----- | ----- | --- |
| Total other income | 10,334 | 9,766 | 20,861 | 1 |
| | ----- | ----- | ----- | --- |
| Other expenses | | | | |
| Salaries and employee benefits | 15,698 | 14,796 | 31,796 | 2 |
| Net occupancy | 1,750 | 1,612 | 3,555 | |
| Equipment | 1,643 | 1,783 | 3,297 | |
| Marketing | 612 | 653 | 1,096 | |
| Outside data processing fees | 1,009 | 1,036 | 1,891 | |
| Printing and office supplies | 291 | 388 | 572 | |
| Core deposit amortization | 808 | 790 | 1,598 | |
| Write-off of unamortized underwriting expense | | 1,771 | | |
| Other expenses | 4,593 | 4,910 | 8,872 | |
| | ----- | ----- | ----- | --- |
| Total other expenses | 26,404 | 27,739 | 52,677 | 5 |
| | ----- | ----- | ----- | --- |
| Income before income tax | 9,033 | 7,994 | 20,273 | 1 |
| Income tax expense | 2,491 | 1,786 | 5,605 | |
| | ----- | ----- | ----- | --- |
| Net income | \$ 6,542 | \$ 6,208 | \$ 14,668 | \$ 1 |
| | ===== | ===== | ===== | ===== |
| Per Share Data | | | | |
| Basic Net Income | \$.37 | \$.34 | \$.82 | \$ |
| Diluted Net Income | .36 | .34 | .81 | |
| Cash Dividends Paid | .23 | .23 | .46 | |
| Average Diluted Shares | | | | |
| Outstanding (in thousands) | 18,159 | 18,369 | 18,108 | |

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CONSOLIDATED BALANCE SHEETS

| (in thousands) | June 30, 2008 | March 31, 2008 | December 31, 2007 | S |
|--------------------------------|------------------|-------------------|----------------------|-----|
| Assets | | | | |
| Cash and due from banks | \$ 80,996 | \$ 89,961 | \$ 134,188 | \$ |
| Federal funds sold | | | 495 | |
| | ----- | ----- | ----- | --- |
| Cash and cash equivalents | 80,996 | 89,961 | 134,683 | |
| Interest-bearing time deposits | 7,267 | 21,280 | 24,931 | |
| Investment securities | 408,324 | 426,055 | 451,167 | |
| Mortgage loans held for sale | 3,234 | 3,494 | 3,735 | |

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| | | | | |
|----------------------------------------------------------------|---------------|----------------|-------------------|------|
| Loans | 3,018,596 | 2,937,710 | 2,876,843 | 2 |
| Less: Allowance for loan losses | (31,597) | (29,094) | (28,228) | |
| Net loans | 2,986,999 | 2,908,616 | 2,848,615 | 2 |
| Premises and equipment | 44,232 | 44,526 | 44,445 | |
| Federal Reserve and Federal Home Loan Bank stock | 25,455 | 25,345 | 25,250 | |
| Interest receivable | 19,680 | 21,212 | 23,402 | |
| Core deposit intangibles and goodwill | 136,230 | 135,056 | 135,856 | |
| Cash surrender value of life insurance | 72,948 | 71,663 | 70,970 | |
| Other real estate owned | 17,243 | 7,372 | 2,573 | |
| Other assets | 19,852 | 12,578 | 16,460 | |
| Total assets | \$ 3,822,460 | \$3,767,158 | \$ 3,782,087 | \$ 3 |
| Liabilities | | | | |
| Deposits | | | | |
| Noninterest-bearing | \$403,152 | \$ 380,364 | \$ 370,397 | \$ |
| Interest-bearing | 2,460,483 | 2,432,763 | 2,473,724 | 2 |
| Total deposits | 2,863,635 | 2,813,127 | 2,844,121 | 2 |
| Borrowings | | | | |
| Fed funds purchased | 151,356 | 111,144 | 52,350 | |
| Securities sold under repurchase agreements | 90,872 | 103,024 | 106,497 | |
| Federal Home Loan Bank advances | 228,196 | 244,468 | 294,101 | |
| Subordinated debentures, revolving credit lines and term loans | 115,826 | 115,826 | 115,826 | |
| Total borrowings | 586,250 | 574,462 | 568,774 | |
| Interest payable | 6,658 | 7,621 | 8,325 | |
| Other liabilities | 18,525 | 23,107 | 20,931 | |
| Total liabilities | 3,475,068 | 3,418,317 | 3,442,151 | 3 |
| Stockholders' equity | | | | |
| Preferred stock, no-par value | | | | |
| Authorized and unissued -- 500,000 shares | | | | |
| Cumulative Preferred Stock, \$1,000 par value: | | | | |
| Authorized -- 600 shares | | | | |
| Issued and outstanding | 125 | 125 | | |
| Common stock, \$.125 stated value | | | | |
| Authorized -- 50,000,000 shares | | | | |
| Issued and outstanding | 2,258 | 2,247 | 2,250 | |
| Additional paid-in capital | 140,258 | 137,633 | 137,801 | |
| Retained earnings | 209,059 | 206,710 | 202,750 | |
| Accumulated other comprehensive loss | (4,308) | 2,126 | (2,865) | |
| Total stockholders' equity | 347,392 | 348,841 | 339,936 | |
| Total liabilities and stockholders' equity | \$ 3,822,460 | \$ 3,767,158 | \$ 3,782,087 | \$ 3 |
| NON PERFORMING ASSETS | | | | |
| | June 30, 2008 | March 31, 2008 | December 31, 2007 | |
| Non Accrual Loans | \$ 34,410 | \$ 27,465 | \$ 29,031 | |
| Renegotiated Loans | 136 | 142 | 145 | |
| Non Performing Loans (NPL) | 34,546 | 27,607 | 29,176 | |
| Real Estate Owned and Repossessed Assets | 17,243 | 7,372 | 2,573 | |
| Non Performing Assets (NPA) | 51,789 | 34,979 | 31,749 | |

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| | | | |
|---------------------------------------|--------|--------|--------|
| 90+ Days Delinquent | 3,538 | 4,996 | 3,578 |
| | ----- | ----- | ----- |
| NPAs & 90 Day Delinquent | 55,327 | 39,975 | 35,327 |
| Loan Loss Reserve | 31,597 | 29,094 | 28,228 |
| YTD Charge-offs | 7,524 | 2,957 | 6,819 |
| NPAs / Actual Assets % | 1.35% | 0.93% | 0.84% |
| NPAs & 90 day / Actual Assets % | 1.45% | 1.06% | 0.93% |
| NPAs / Actual Loans & REO (%) | 1.70% | 1.19% | 1.10% |
| Loan Loss Reserves / Actual Loans (%) | 1.05% | 0.99% | 0.98% |
| NCOs / YTD Average Loans (%) | 0.26% | 0.10% | 0.24% |

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CONSOLIDATED STATEMENTS OF INCOME

| (in thousands, except share data) | June 30, 2008 | Three Months Ended | |
|--------------------------------------------------------------------------|------------------|--------------------|----------------------|
| | | March 31, 2008 | December 31, 2007 |
| Loans receivable | | | |
| Taxable | \$49,023 | \$51,101 | \$ 53,338 |
| Tax exempt | 178 | 165 | 302 |
| Investment securities | | | |
| Taxable | 2,947 | 3,249 | 3,487 |
| Tax exempt | 1,452 | 1,513 | 1,623 |
| Federal funds sold | 3 | 8 | 39 |
| Deposits with financial institutions | 133 | 282 | 194 |
| Federal Reserve and Federal Home Loan Bank stock | 370 | 335 | 344 |
| | ----- | ----- | ----- |
| Total interest income | 54,106 | 56,653 | 59,327 |
| | ----- | ----- | ----- |
| Interest expense | | | |
| Deposits | 16,297 | 19,433 | 22,398 |
| Federal funds purchased | 577 | 669 | 692 |
| Securities sold under repurchase agreements | 632 | 816 | 1,182 |
| Federal Home Loan Bank advances | 2,825 | 3,036 | 3,250 |
| Subordinated debentures, revolving credit lines and term loans | 1,602 | 1,890 | 1,910 |
| | ----- | ----- | ----- |
| Total interest expense | 21,933 | 25,844 | 29,432 |
| | ----- | ----- | ----- |
| Net interest income | 32,173 | 30,809 | 29,895 |
| Provision for loan losses | 7,070 | 3,823 | 2,450 |
| | ----- | ----- | ----- |
| Net interest income after provision for loan losses | 25,103 | 26,986 | 27,445 |
| | ----- | ----- | ----- |
| Other income | | | |
| Service charges on deposit accounts | 3,157 | 2,931 | 3,206 |
| Fiduciary activities | 2,126 | 2,142 | 2,094 |
| Other customer fees | 1,767 | 1,679 | 1,686 |
| Commission income | 1,427 | 1,669 | 1,031 |
| Earnings on cash surrender value of life insurance | 606 | 738 | 1,186 |
| Net gains and fees on sales of loans | 668 | 643 | 546 |
| Net realized gains (losses) on sales of available-for-sale securities | 13 | 73 | 1 |
| Other income | 570 | 652 | 383 |
| | ----- | ----- | ----- |
| Total other income | 10,334 | 10,527 | 10,133 |

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| | ----- | ----- | ----- |
|-----------------------------------------------|----------|---------|---------|
| Other expenses | | | |
| Salaries and employee benefits | 15,698 | 16,098 | 14,738 |
| Net occupancy | 1,750 | 1,805 | 1,619 |
| Equipment | 1,643 | 1,654 | 1,619 |
| Marketing | 612 | 484 | 505 |
| Outside data processing fees | 1,009 | 882 | 872 |
| Printing and office supplies | 291 | 281 | 329 |
| Core deposit amortization | 808 | 790 | 789 |
| Write-off of unamortized underwriting expense | | | |
| Other expenses | 4,593 | 4,279 | 4,776 |
| | ----- | ----- | ----- |
| Total other expenses | 26,404 | 26,273 | 25,247 |
| | ----- | ----- | ----- |
| Income before income tax | 9,033 | 11,240 | 12,331 |
| Income tax expense | 2,491 | 3,114 | 3,021 |
| | ----- | ----- | ----- |
| Net income | \$ 6,542 | \$8,126 | \$9,310 |
| | ===== | ===== | ===== |

Per Share Data

| | | | |
|---------------------------------------------------|--------|--------|--------|
| Basic Net Income | .37 | \$.45 | \$.51 |
| Diluted Net Income | .36 | .45 | .51 |
| Cash Dividends Paid | .23 | .23 | .23 |
| Average Diluted Shares Outstanding (in thousands) | 18,159 | 18,055 | 18,138 |

FINANCIAL RATIOS

| | | | |
|--------------------------------------------------|-------|-------|-------|
| Return on Average Assets | .69% | .86% | 1.00% |
| Return on Avg. Stockholders' Equity | 7.46 | 9.43 | 11.10 |
| Avg. Earning Assets to Avg. Assets | 90.94 | 90.38 | 90.70 |
| Allowance for Loan Losses as % Of Total Loans | 1.05 | .99 | .98 |
| Net Charge Off's as % Of Avg. Loans (Annualized) | .61 | .41 | .26 |
| Dividend Payout Ratio | 63.85 | 51.10 | 45.10 |
| Avg. Stockholders' Equity to Avg. Assets | 9.30 | 9.17 | 8.98 |
| Tax Equivalent Yield on Earning Assets | 6.41 | 6.78 | 7.13 |
| Cost of Supporting Liabilities | 2.56 | 3.04 | 3.47 |
| Net Int. Margin (FTE) on Earning Assets | 3.85 | 3.74 | 3.66 |

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LOANS

| (in thousands) | June 30, 2008 | March 31, 2008 | December 31, 2007 | Septem |
|------------------------------------------------------------------|------------------|-------------------|----------------------|--------|
| Commercial and industrial loans | \$ 815,137 | \$ 724,643 | \$ 662,701 | \$6 |
| Agricultural production financing and other loans to farmers | 125,125 | 123,314 | 114,324 | 1 |
| Real estate loans: | | | | |
| Construction | 181,598 | 178,171 | 165,425 | 1 |
| Commercial and farmland | 954,672 | 961,431 | 947,234 | 9 |
| Residential | 718,065 | 728,956 | 744,627 | 7 |
| Individuals' loans for household and other personal expenditures | 161,387 | 174,857 | 187,880 | 1 |
| Tax exempt loans | 22,553 | 11,646 | 16,423 | |
| Lease financing receivables, net of unearned income | 9,158 | 8,438 | 8,351 | |

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| | | | | |
|---------------------------|--------------|--------------|--------------|--------|
| Other loans | 30,901 | 26,254 | 29,878 | |
| | ----- | ----- | ----- | ----- |
| | 3,018,596 | 2,937,710 | 2,876,843 | 2,8 |
| Allowance for loan losses | (28,228) | (27,635) | (27,608) | (|
| | ----- | ----- | ----- | ----- |
| Total loans | \$ 2,986,999 | \$ 2,908,616 | \$ 2,848,615 | \$ 2,8 |
| | ===== | ===== | ===== | ===== |

DEPOSITS

| | | | | |
|--------------------------------------------------------------|------------------|-------------------|----------------------|---------------|
| (in thousands) | June 30, 2008 | March 31, 2008 | December 31, 2007 | Septemb 20 |
| Demand deposits | \$932,017 | \$ 881,498 | \$ 903,380 | \$ 8 |
| Savings deposits | 546,951 | 562,942 | 552,379 | 5 |
| Certificates and other time deposits of \$100,000 or more | 444,967 | 459,038 | 470,733 | 4 |
| Other certificates and time deposits | 939,700 | 909,649 | 917,629 | 9 |
| | ----- | ----- | ----- | ----- |
| Total deposits | \$2,863,635 | \$2,813,127 | \$2,844,121 | \$2,7 |
| | ===== | ===== | ===== | ===== |