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FIRST MERCHANTS CORP
Form 8-K
October 22, 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): October 22, 2008

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, 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 October 22, 2008 First Merchants Corporation issued a press release to report its financial results for the second quarter ended September 30, 2008. A

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

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

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

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

Exhibit 99.1 Press Release, dated October 22, 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: October 22, 2008

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|---|
| ----- | ----- |
| 99.1 | Press Release, dated October 22, 2008, issued by First Merchants Corporation. |

First Merchants Corporation

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Exhibit No. 99.1

Press Release, dated October 22, 2008

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

October 22, 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 3rd QUARTER YEAR-TO-DATE NET INCOME OF \$20.4 MILLION.

First Merchants Corporation (NASDAQ - FRME) has reported third quarter 2008 diluted earnings per share of \$.32, a decline from 2007 third quarter earnings per share of \$.46. Net Income for the quarter totaled \$5.7 million, a decrease from the 3rd quarter 2007 total of \$8.3 million.

Year-to-date diluted earnings per share totaled \$1.13, a decrease of 7.4 percent, from 2007 earnings per share of \$1.22. Net Income totaled \$20.4 million, a decline of \$1.9 million from the prior year total of \$22.3 million.

Total assets reached \$3.8 billion at quarter-end, an increase of \$110 million, or 2.9 percent, from September 30, 2007. Loans and investments, the Corporation's primary earning assets, totaled \$3.47 billion, an increase of \$122 million, or 3.6 percent, over the prior year. Loans accounted for \$208 million of the increase as investment securities declined by \$86 million as spreads between investment securities and borrowings remain below historical levels. At September 30, 2008, the Corporation's tangible capital was 5.9%, tier 1 capital was 7.3%, tier 1 risk based capital was 8.5% and total risk based capital was 11.2%.

Net-Interest margin expanded by 39 basis points from 3.52 percent in the third quarter of 2007 to 3.91 percent in 2008. As a result, net-interest income increased by \$4.7 million, or 16.5 percent. Year-to-date net interest margin improved by 32 basis points as net interest income increased by \$13 million or 15.6 percent.

Provision expense totaled \$7.1 million for the quarter, an increase of \$4.3 million, as net charge-offs totaled \$3.7 million. Year-to-date provision expense totaled \$18 million, an increase of \$12 million over the prior year, as charge-off's totaled \$11.2 million. Non-performing assets increased from 84 basis points of total assets to 142 basis points during the year.

The Corporation's allowance for loan losses as a percent of total loans increased from .96 to 1.14 percent since September 30, 2007. The increase totals \$7.4 million in additional reserves. The increased allowance for loan losses total is comprised of a \$2.0 million increase in the general historical loss component, a \$6.3 increase in environmental factors and a decline in specific reserves of \$924,000.

Total non-interest income decreased by \$1.6 million, during the quarter, due primarily to a \$1.5 million write-off of FHLMC preferred stock. Total expenses increased during the quarter by \$2.1 million totaling \$27.1 million. Year-to-date non-interest income declined by \$337,000 and non-interest expense

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increased \$2,857,000.

Michael C. Rechin, President and Chief Executive Officer, stated that, "First Merchants has the people, strategies, capital, liquidity, and commitment to weather the current environment. While our short-term earnings have been impacted by credit costs, the strengthening of our balance sheet by building our loan loss reserve is prudent for the future and warranted by the economic trends we see in the Midwest. The volatility in our local markets and the capital markets does create opportunity and we have been successful in the strategic building of relationships and revenues."

Rechin continued, "First Merchants exceeds the Federal Reserve's capital adequacy requirements and continues to meet their definition of "well capitalized". Despite prudent provisioning, the Corporation's earnings and liquidity remain strong." Rechin also added that, "We look forward to the conclusion of our announced acquisition of Lincoln Bancorp. All required applications for approval have been filed and, at this time, no delays are expected in completing the transaction by our announced target date of December 31, 2008."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Daylight Time on Wednesday, October 22, 2008. To participate, dial (Toll Free) 800-860-2442 and reference First Merchants Corporation's third quarter earnings. A replay will be available until October 29, 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., and 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)

| | 2008 | September 30, | 2007 |
|---|--------------|---------------|--------------|
| Assets | | | |
| Cash and due from banks | \$ 69,846 | | \$ 83,845 |
| Federal funds sold | 7,818 | | 1,800 |
| | ----- | | ----- |
| Cash and cash equivalents | 77,664 | | 85,645 |
| Interest-bearing time deposits | 15,623 | | 22,295 |
| Investment securities | 388,808 | | 474,613 |
| Mortgage loans held for sale | 2,062 | | 4,328 |
| Loans | 3,078,768 | | 2,869,001 |
| Less: Allowance for loan losses | (34,985) | | (27,635) |
| | ----- | | ----- |
| Net loans | 3,043,783 | | 2,841,366 |
| Premises and equipment | 44,402 | | 44,255 |
| Federal Reserve and Federal Home Loan Bank stock | 25,494 | | 25,050 |
| Interest receivable | 21,569 | | 25,954 |
| Core deposit intangibles and goodwill | 135,701 | | 136,266 |
| Cash surrender value of life insurance | 73,448 | | 70,082 |
| Other real estate owned | 16,916 | | 2,081 |
| Other assets | 18,604 | | 22,365 |
| | ----- | | ----- |
| Total assets | \$ 3,864,074 | | \$ 3,754,300 |
| | ===== | | ===== |
| Liabilities | | | |
| Deposits | | | |
| Noninterest-bearing | 384,928 | | 355,339 |
| Interest-bearing | 2,529,355 | | 2,403,836 |
| | ----- | | ----- |
| Total deposits | 2,914,283 | | 2,759,175 |
| Borrowings | | | |
| Fed funds purchased | 57,600 | | 95,697 |
| Securities sold under repurchase agreements | 100,227 | | 103,846 |
| Federal Home Loan Bank advances | 237,225 | | 310,100 |
| Subordinated debentures, revolving credit lines and term loans | 176,256 | | 110,826 |
| | ----- | | ----- |
| Total borrowings | 571,308 | | 620,469 |
| Interest payable | 6,529 | | 9,170 |
| Other liabilities | 19,861 | | 32,745 |
| | ----- | | ----- |
| Total liabilities | 3,511,981 | | 3,421,559 |
| 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 - 18,125,090 and | | | |

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| | | |
|--|--------------|--------------|
| 18,153,828 shares | 2,266 | 2,269 |
| Additional paid-in capital | 141,777 | 140,642 |
| Retained earnings | 210,605 | 197,609 |
| Accumulated other comprehensive loss | (2,680) | (7,779) |
| | ----- | ----- |
| Total stockholders' equity | 352,093 | 332,741 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 3,864,074 | \$ 3,754,300 |
| | ===== | ===== |

FINANCIAL HIGHLIGHTS

| | | |
|---|-------------------------------------|--------------|
| (in thousands) | Three Months Ended September 30, | |
| | 2008 | 2007 |
| NET CHARGE OFF'S | \$ 3,706 | \$ 2,783 |
| AVERAGE BALANCES | | |
| Total Assets | \$ 3,844,905 | \$ 3,696,382 |
| Total Loans | 3,045,672 | 2,835,639 |
| Total Deposits | 2,929,774 | 2,776,346 |
| Total Stockholders' Equity | 349,652 | 329,474 |
| FINANCIAL RATIOS | | |
| Return on Average Assets | .60% | .90% |
| Return on Avg. Stockholders' Equity | 6.58 | 10.14 |
| Avg. Earning Assets to Avg. Assets | 91.02 | 90.88 |
| Allowance for Loan Losses as % of Total Loans | 1.14 | .96 |
| Net Charge Off's as % of Avg. Loans (Annualized) | .49 | .39 |
| Dividend Payout Ratio | 71.88 | 50.00 |
| Avg. Stockholders' Equity to Avg. Assets | 9.09 | 8.91 |
| Tax Equivalent Yield on Earning Assets | 6.39 | 7.17 |
| Cost of Supporting Liabilities | 2.48 | 3.65 |
| Net Int. Margin (FTE) on Earning Assets | 3.91 | 3.52 |

CONSOLIDATED STATEMENTS OF INCOME

| | | |
|--|-------------------------------------|-----------|
| (in thousands, except share data) | Three Months Ended September 30, | |
| | 2008 | 2007 |
| Interest income | | |
| Loans receivable | | |
| Taxable | \$ 49,828 | \$ 53,081 |
| Tax exempt | 321 | 368 |
| Investment securities | | |
| Taxable | 2,943 | 3,581 |
| Tax exempt | 1,379 | 1,613 |
| Federal funds sold | 10 | 41 |
| Deposits with financial institutions | 146 | 145 |
| Federal Reserve and Federal Home Loan Bank stock | 351 | 328 |
| | ----- | ----- |
| Total interest income | 54,978 | 59,157 |
| | ----- | ----- |
| Interest expense | | |
| Deposits | 16,213 | 23,327 |
| Federal funds purchased | 502 | 996 |
| Securities sold under repurchase agreements | 650 | 1,195 |
| Federal Home Loan Bank advances | 2,724 | 3,302 |

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| | | |
|---|----------|----------|
| Subordinated debentures, revolving credit lines and term loans | 1,635 | 1,802 |
| | ----- | ----- |
| Total interest expense | 21,724 | 30,622 |
| | ----- | ----- |
| Net interest income | 33,254 | 28,535 |
| Provision for loan losses | 7,094 | 2,810 |
| | ----- | ----- |
| Net interest income After provision for loan losses | 26,160 | 25,725 |
| | ----- | ----- |
| Other income | | |
| Services charges on deposit accounts | 3,568 | 3,241 |
| Fiduciary activities | 1,932 | 1,985 |
| Other customer fees | 1,696 | 1,767 |
| Commission income | 1,457 | 1,175 |
| Earnings on cash surrender value of life insurance | 519 | 998 |
| Net gains and fees on sales of loans | 648 | 749 |
| Net realized gains (losses) on sale of available-for-sale securities | (1,255) | |
| Other income | 655 | 933 |
| | ----- | ----- |
| Total other income | 9,220 | 10,848 |
| | ----- | ----- |
| Other expenses | | |
| Salaries and employee benefits | 15,330 | 14,583 |
| Net occupancy | 1,857 | 1,818 |
| Equipment | 1,649 | 1,645 |
| Marketing | 605 | 560 |
| Outside data processing fees | 1,068 | 972 |
| Printing and office supplies | 281 | 394 |
| Core deposit amortization | 809 | 789 |
| Write-off of unamortized underwriting expense | | |
| Other expenses | 5,516 | 4,241 |
| | ----- | ----- |
| Total other expenses | 27,115 | 25,002 |
| | ----- | ----- |
| Income before income tax | 8,265 | 11,571 |
| Income tax expense | 2,516 | 3,221 |
| | ----- | ----- |
| Net income | \$ 5,749 | \$ 8,350 |
| | ===== | ===== |
| Per Share Data | | |
| Basic Net Income | .32 | .46 |
| Diluted Net Income | .32 | .46 |
| Cash Dividends Paid | .23 | .23 |
| Average Diluted Shares Outstanding (in thousands) | 18,196 | 18,276 |

CONSOLIDATED BALANCE SHEETS

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| (in thousands) | September 30, 2008 | June 30, 2008 | March 31, 2008 |
|--|-----------------------|------------------|-------------------|
| Assets | | | |
| Cash and due from banks | \$ 69,846 | \$ 80,996 | \$ 89,961 |
| Federal funds sold | 7,818 | | |
| | ----- | ----- | ----- |
| Cash and cash equivalents | 77,664 | 80,996 | 89,961 |
| Interest-bearing time deposits | 15,623 | 7,267 | 21,280 |
| Investment securities | 388,808 | 408,324 | 426,055 |
| Mortgage loans held for sale | 2,062 | 3,234 | 3,494 |
| Loans | 3,078,768 | 3,018,596 | 2,937,710 |
| Less: Allowance for loan losses | (34,985) | (31,597) | (29,094) |
| | ----- | ----- | ----- |
| Net loans | 3,043,783 | 2,986,999 | 2,908,616 |
| Premises and equipment | 44,402 | 44,232 | 44,526 |
| Federal Reserve and Federal Home Loan Bank Stock | 25,494 | 25,455 | 25,345 |
| Interest receivable | 21,569 | 19,680 | 21,212 |
| Core deposit intangibles and goodwill | 135,701 | 136,230 | 135,056 |
| Cash surrender value of life insurance | 73,448 | 72,948 | 71,663 |
| Other real estate owned | 16,916 | 17,243 | 7,372 |
| Other assets | 18,604 | 19,852 | 12,578 |
| | ----- | ----- | ----- |
| Total assets | \$ 3,864,074 | \$ 3,822,460 | \$ 3,767,158 |
| | ===== | ===== | ===== |
| Liabilities | | | |
| Deposits | | | |
| Noninterest-bearing | 384,928 | 403,152 | 380,364 |
| Interest-bearing | 2,529,355 | 2,460,483 | 2,432,763 |
| | ----- | ----- | ----- |
| Total deposits | 2,914,283 | 2,863,635 | 2,813,127 |
| Borrowings | | | |
| Fed funds purchased | 57,600 | 151,356 | 111,144 |
| Securities sold under repurchase agreements | 100,227 | 90,872 | 103,024 |
| Federal Home Loan Bank advances | 237,225 | 228,196 | 244,468 |
| Subordinated debentures, revolving credit, lines and term loans | 176,256 | 115,826 | 115,826 |
| | ----- | ----- | ----- |
| Total borrowings | 571,308 | 586,250 | 574,462 |
| Interest payable | 6,529 | 6,658 | 7,621 |
| Other liabilities | 19,861 | 18,525 | 23,107 |
| | ----- | ----- | ----- |
| Total liabilities | 3,511,981 | 3,475,068 | 3,418,317 |
| Stockholders' equity | | | |
| Preferred stock, no-par value | | | |
| Authorized and unissued - 500,000 shares | | | |
| Cumulative Preferred Stock, \$1,000 par value: | | | |
| Authorized - 600 shares | 125 | 125 | 125 |
| Issued and outstanding | | | |
| Common stock, \$.125 stated value | | | |
| Authorized - 50,000,000 shares | | | |
| Issued and outstanding | 2,266 | 2,258 | 2,247 |
| Additional paid-in capital | 141,777 | 140,258 | 137,633 |
| Retained earnings | 210,605 | 209,059 | 206,710 |
| Accumulated other comprehensive loss | (2,680) | (4,308) | 2,126 |
| | ----- | ----- | ----- |
| Total stockholders' equity | 352,093 | 347,392 | 348,841 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 3,864,074 | \$ 3,822,460 | \$ 3,767,158 |
| | ===== | ===== | ===== |

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NON PERFORMING ASSETS

| | September 30, 2008 | June 30, 2008 | March 31, 2008 |
|--|-----------------------|------------------|-------------------|
| Non Accrual Loans | 37,879 | 34,410 | 27,465 |
| Renegotiated Loans | 135 | 136 | 142 |
| | ----- | ----- | ----- |
| Non Performing Loans (NPL) | 38,014 | 34,546 | 27,607 |
| Real Estate Owned and Repossessed Assets | 16,916 | 17,243 | 7,372 |
| | ----- | ----- | ----- |
| Non Performing Assets (NPA) | 54,930 | 51,789 | 34,979 |
| 90+ Days Delinquent | 8,056 | 3,538 | 4,996 |
| | ----- | ----- | ----- |
| NPAs & 90 Day Delinquent | 62,986 | 55,327 | 39,975 |
| Loan Loss Reserve | 34,985 | 31,597 | 29,094 |
| YTD Charge-offs | 11,230 | 7,524 | 2,957 |
| NPAs / Actual Assets % | 1.42% | 1.35% | 0.93% |
| NPAs & 90 Day / Actual Assets % | 1.63% | 1.45% | 1.06% |
| NPAs / Actual Loans & REO (%) | 1.77% | 1.70% | 1.19% |
| Loan Loss Reserves / Actual Loans (%) | 1.14% | 1.05% | 0.99% |
| NCOs / YTD Average Loans (%) | 0.38% | 0.26% | 0.10% |

CONSOLIDATED STATEMENTS OF INCOME

| (in thousands, except share data) | September 30, 2008 | June 30, 2008 | March 31, 2008 |
|---|-----------------------|------------------|-------------------|
| Loans receivable | | | |
| Taxable | \$ 49,828 | \$ 49,023 | \$ 51,101 |
| Tax exempt | 321 | 178 | 165 |
| Investment securities | | | |
| Taxable | 2,943 | 2,947 | 3,249 |
| Tax exempt | 1,379 | 1,452 | 1,513 |
| Federal funds sold | 10 | 3 | 8 |
| Deposits with financial institutions | 146 | 133 | 282 |
| Federal Reserve and Federal Home Loan Bank stock | 351 | 370 | 335 |
| | ----- | ----- | ----- |
| Total interest income | 54,978 | 54,106 | 56,653 |
| | ----- | ----- | ----- |
| Interest expense | | | |
| Deposits | 16,213 | 16,297 | 19,433 |
| Federal funds purchased | 502 | 577 | 669 |
| Securities sold under repurchase agreements | 650 | 632 | 816 |
| Federal Home Loan Bank advances | 2,724 | 2,825 | 3,036 |
| Subordinated debentures, revolving credit lines and term loans | 1,635 | 1,602 | 1,890 |
| | ----- | ----- | ----- |
| Total interest expense | 21,724 | 21,933 | 25,844 |
| | ----- | ----- | ----- |
| Net interest income | 33,254 | 32,173 | 30,809 |
| Provision for loan losses | 7,094 | 7,070 | 3,823 |
| | ----- | ----- | ----- |
| Net interest income After provision for loan losses | 26,160 | 25,103 | 26,986 |
| Other income | | | |
| Service charges on deposit accounts | 3,568 | 3,157 | 2,931 |
| Fiduciary activities | 1,932 | 2,126 | 2,142 |

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| | | | |
|--|-----------------------|------------------|-------------------|
| Other customer fees | 1,696 | 1,767 | 1,679 |
| Commission income | 1,457 | 1,427 | 1,669 |
| Earnings on cash surrender value of life insurance | 519 | 606 | 738 |
| Net gains and fees on sales of loans | 648 | 668 | 643 |
| Net realized gains (losses) on sales of available-for-sale securities | (1,255) | 13 | 73 |
| Other income | 655 | 570 | 652 |
| | ----- | ----- | ----- |
| Total other income | 9,220 | 10,334 | 10,527 |
| | ----- | ----- | ----- |
| Other expenses | | | |
| Salaries and employee benefits | 15,330 | 15,698 | 16,098 |
| Net occupancy | 1,857 | 1,750 | 1,805 |
| Equipment | 1,649 | 1,643 | 1,654 |
| Marketing | 605 | 612 | 484 |
| Outside data processing fees | 1,068 | 1,009 | 882 |
| Printing and office supplies | 281 | 291 | 281 |
| Core deposit amortization | 809 | 808 | 790 |
| Other expenses | 5,516 | 4,593 | 4,279 |
| | ----- | ----- | ----- |
| Total other expenses | 27,115 | 26,404 | 26,273 |
| | ----- | ----- | ----- |
| Income before income tax | 8,265 | 9,033 | 11,240 |
| Income tax expense | 2,516 | 2,491 | 3,114 |
| | ----- | ----- | ----- |
| Net income | \$ 5,749 | \$ 6,542 | \$ 8,126 |
| | ===== | ===== | ===== |
| Per Share Data | | | |
| Basic Net Income | .32 | .37 | .45 |
| Diluted Net Income | .32 | .36 | .45 |
| Cash Dividends Paid | .23 | .23 | .23 |
| Average Diluted Shares Outstanding (in thousands) | 18,196 | 18,159 | 18,055 |
| FINANCIAL RATIOS | | | |
| Return on Average Assets | .60% | .69% | .86% |
| Return on Average Stockholders' Equity | 6.58 | 7.46 | 9.43 |
| Avg. Earning Assets to Avg. Assets | 91.02 | 90.94 | 90.38 |
| Allowance for Loan Losses as % of Total Loans | 1.14 | 1.05 | .99 |
| Net Charge Off's as % of Average Loans (Annualized) | .49 | .61 | .41 |
| Dividend Payout Ratio | 71.88 | 63.85 | 51.10 |
| Average Stockholders' Equity to Average Assets | 9.09 | 9.30 | 9.17 |
| Tax Equivalent Yield on Earning Assets | 6.39 | 6.41 | 6.78 |
| Cost of Supporting Liabilities | 2.48 | 2.56 | 3.04 |
| Net Interest Margin (FTE) on Earning Assets | 3.91 | 3.85 | 3.74 |
| LOANS | | | |
| (in thousands, except share data) | September 30, 2008 | June 30, 2008 | March 31, 2008 |
| Commercial and industrial loans | \$ 851,233 | \$ 815,137 | \$ 724,643 |
| Agricultural production financing and other loans to farmers | 136,176 | 125,125 | 123,314 |
| Real estate loans: | | | |

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| | | | |
|--|--------------|--------------|--------------|
| Construction | 167,512 | 181,598 | 178,171 |
| Commercial and farmland | 966,259 | 954,672 | 961,431 |
| Residential | 731,065 | 718,065 | 728,956 |
| Individuals' loans for household and other personal expenditures | 145,345 | 161,387 | 174,857 |
| Tax exempt loans | 34,010 | 22,553 | 11,646 |
| Lease financing receivables, net of unearned income | 9,262 | 9,158 | 8,438 |
| Other loans | 37,906 | 30,901 | 26,254 |
| | ----- | ----- | ----- |
| | 3,078,768 | 3,018,596 | 2,937,710 |
| Allowance for loan losses | (34,985) | (31,597) | (29,094) |
| | ----- | ----- | ----- |
| Total loans | \$ 3,043,783 | \$ 2,986,999 | \$ 2,908,616 |
| | ===== | ===== | ===== |

DEPOSITS

| | September 30, 2008 | June 30, 2008 | March 31, 2008 |
|--|-----------------------|------------------|-------------------|
|--|-----------------------|------------------|-------------------|

(in thousands)

| | | | |
|---|--------------|--------------|--------------|
| Demand deposits | \$921,034 | \$932,017 | \$881,498 |
| Savings deposits | 540,596 | 546,951 | 562,942 |
| Certificates and other time deposits of \$100,000 or more | 469,426 | 444,967 | 459,038 |
| Other certificates and time deposits | 983,227 | 939,700 | 909,649 |
| | ----- | ----- | ----- |
| Total deposits | \$ 2,914,283 | \$ 2,863,635 | \$ 2,813,127 |
| | ===== | ===== | ===== |

