

# First Merchants Corporation

Howe Barnes Hoefler & Arnett  
13<sup>th</sup> Annual Bank Conference





Mark K. Hardwick

First Merchants Corporation  
Executive Vice President  
and Chief Financial Officer





Michael J. Stewart

First Merchants Corporation  
Executive Vice President and  
Chief Banking Officer





# Forward-Looking Statement

The Corporation may make forward-looking statements about its relative business outlook. These forward-looking statements and all other statements made during this meeting 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.

Please refer to our press releases, Form 10-Q's and 10-K's concerning factors that could cause actual results to differ materially from any forward-looking statements.





# Who is First Merchants?

- \$3.8 billion in assets
- FMC organized in 1982, headquartered in Muncie, Indiana
- Founding bank proudly based in and serving Indiana since 1893
- Largest financial holding company based in Central Indiana
- Grown to include banks with 67 locations in 17 Indiana and 3 Ohio counties





# Vision & Mission

- **Vision** - A financial services company focused on building deep, lifelong client relationships and providing maximum shareholder value. We provide an environment where customers can bank with their neighbor realizing that our business begins and ends with people.
- **Mission** - To deliver superior personalized financial solutions to consumer and closely held commercial clients in diverse community markets by providing sound advice and products that exceed customer expectations.





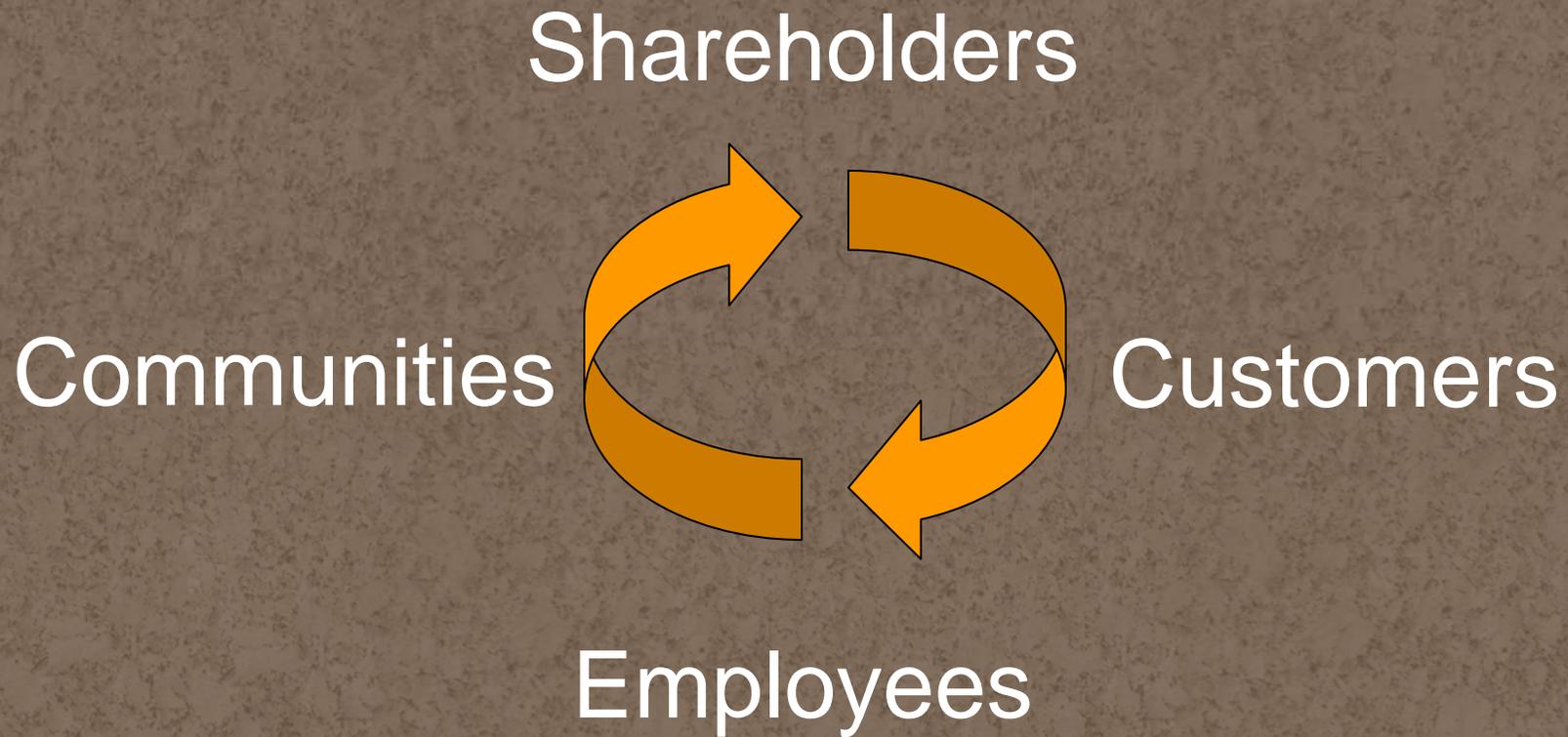
# Culture Statement

We are a team of associates who support and expect superior results from our company and ourselves. Accountability and execution is the foundation of our success.





# Stakeholder Focused





# Corporate Strategy Map

## Financial Perspective (What do shareholder's expect?)

Provide Maximum Shareholder Value (F1)

10% Annual EPS Growth on average (F2)

Top Quartile performance in ROA, ROE, Tangible ROE and Efficiency Ratio Among Peer Groups as Defined by our Board of Directors (F3)

## Customer Perspective (What do customers value?)

Provide Sound Advice, Products and Service that Exceed Customer Expectations (C1)

Build Deep Life Long Client Relationships (C2)

## Internal Perspective (What must we do internally to deliver value to our customers?)

Effective Relationship Management Process (I1)

Effective Sales Management Process (I2)

Optimize Investments in Products (I3)

Optimize Investments in Facilities and Equipment (I4)

Streamline Key Functions / Improve Productivity (I5)

Develop Continuous Strategic Planning Process (I6)

Develop Comprehensive Risk Management Focus (I7)

## Learning & Growing (What must we do to enhance our people?)

Create Energized Work Force (L1)

Optimize the Value of Corporate Investments in People (L2)

Attract and Retain High Performing Employees (L3)



# Growth Strategies

- Organic
  - Line-of-Business Focused
  - Market Focused
- Mergers and Acquisitions
  - Improved Demographics
  - EPS Accretion





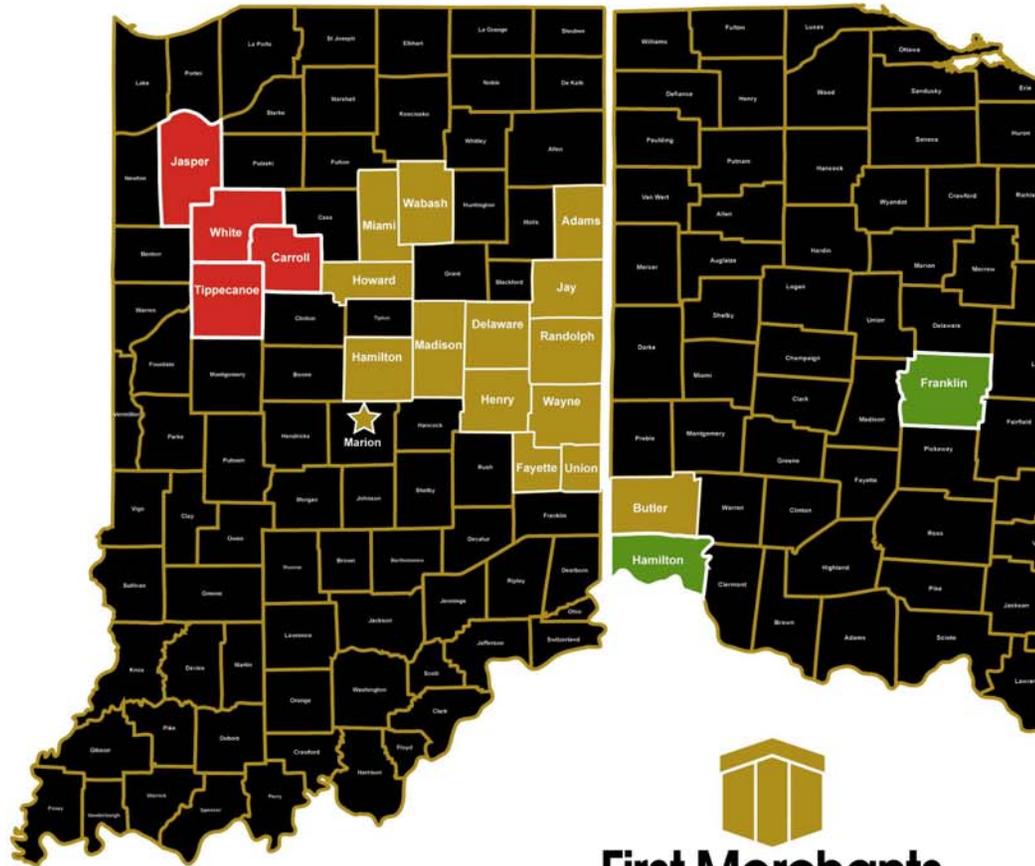
# Lines of Business

- Commercial
- Retail
- Mortgage
- Cash Management
- Small Business
- Trust
- Insurance





# Current View by Markets



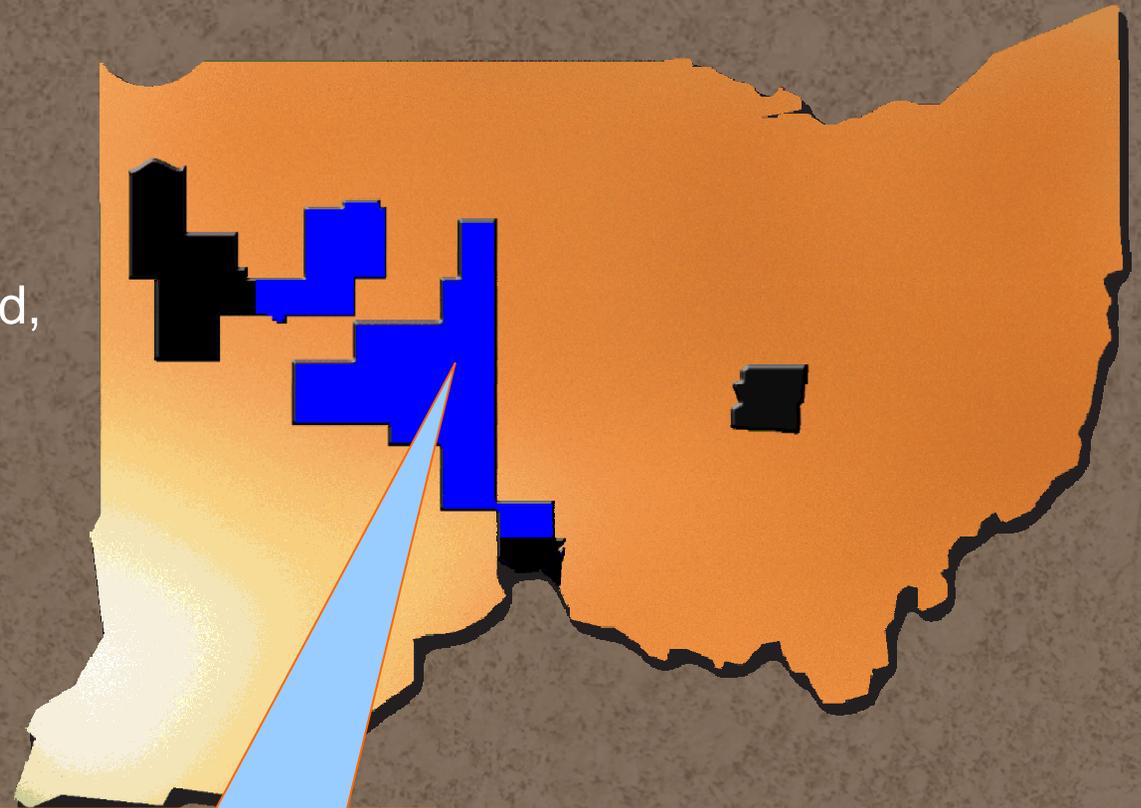
-  **First Merchants Bank**
-  **Lafayette Bank & Trust**
-  **Commerce National Bank**





# First Merchants Bank

- \$2.2 billion in assets
- 48 Banking Centers
- Major Markets: Indianapolis, Muncie, Anderson, Richmond, Fort Wayne



First Merchants Bank



# Market Overview

- Indianapolis region contains 32% of Indiana companies with \$5MM-\$100MM in revenue
- Higher education presence of Ball State, Anderson University, and Ivy Tech addressing the skill and employment transition of Muncie and Anderson's manufacturing roots
- Pricing strength in farm products creates resurgence in agribusiness sector





# FMB Market Approach

- Strongest street corner banking franchise. Leading deposit shares in all counties, except Indianapolis market (Hamilton and Marion counties)
- Commercial Banking orientation targets small business and middle market
- Indianapolis region growing 30+% per year
- Retail system in northern FMB communities provides organic deposit supply





# Current Indianapolis Strategy



- Recruit top talent with background in the Indianapolis market.
- Take advantage of the current disruption in the market surrounding middle market lending.
- Capitalize on Centers of Influence knowledge through superior service.
- Build Treasury Management personnel to assure relationship strategy.
- Refine Small Business strategy within the retail network.



# The Indianapolis Market in 3 Years

- 'Go To' Bank for Small Business and Middle Market companies
  - Treasury Management
  - Insurance Coverage
  - Trust Services
- Continued investment in retail franchise
- Balanced portfolio of investment real estate
  - Commercial and Industrial and small business
- Top talent with proven track record of performance

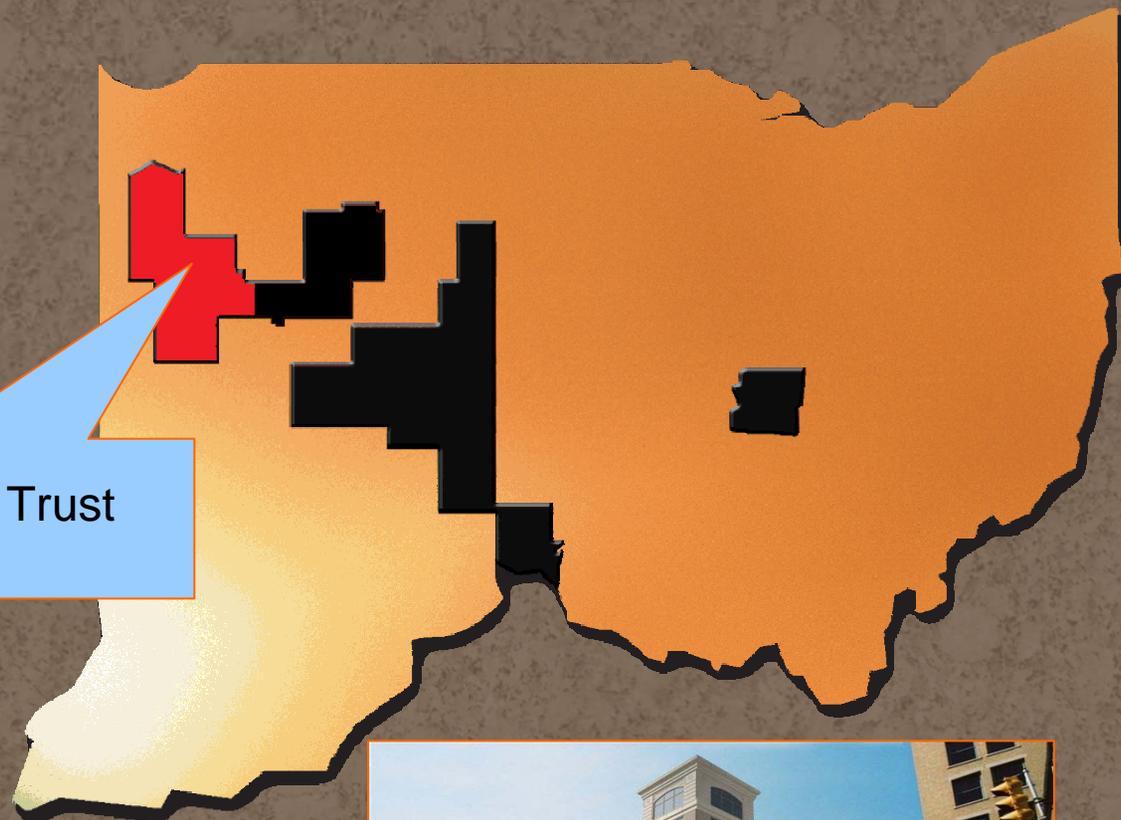




# Lafayette Bank & Trust Company

- \$1 billion in assets
- 17 Banking Centers
- Major Market: Lafayette

Lafayette Bank and Trust





# Market Overview

- Lafayette market benefits from Purdue University investment and growth
- University-related technology and engineering focus has spawned Indiana's largest technology and research park
- Economy north of Lafayette dominated by agribusiness





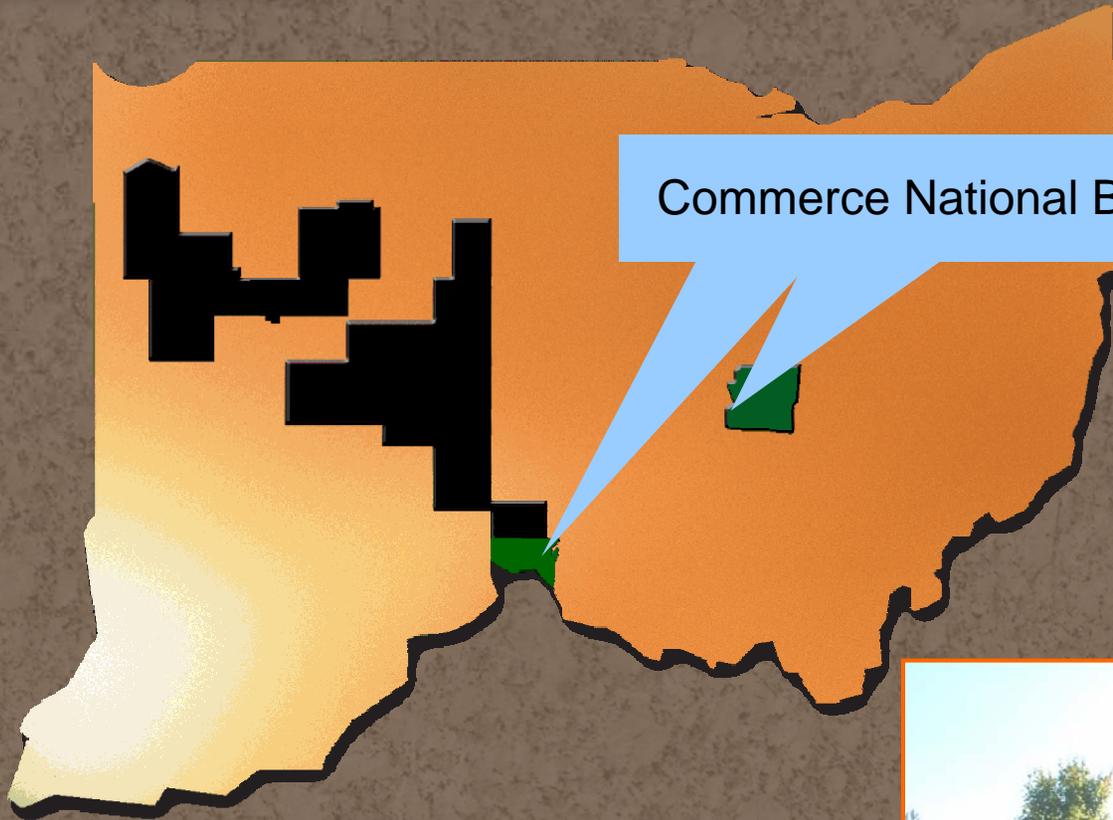
# LBT Market Approach

- Strongest street corner banking franchise (#1 in deposit market share)
- Significant agribusiness orientation across outlying counties
- Sizeable portfolio in lower-middle market banking and student housing





# Commerce National Bank



Commerce National Bank

- \$607 million in assets
- 2 Banking Centers
- Major Markets: Columbus, Cincinnati





# Market Overview

- Strongest growth market statistics in Ohio
  - Columbus
    - 15<sup>th</sup> largest city in U.S.
    - 7<sup>th</sup> strongest economy in U.S.
    - 3<sup>rd</sup> fastest growing MSA in the Midwest
    - 6.8% growth rate since 2000
  - Professional community concentrations in healthcare, insurance, government, and higher education





# CNB Market Approach

- CNB executes its “Bank for Business” model
- Significant affiliation and commitment to dental and healthcare sectors
- Deposit gathering through captive courier service and remote capture
- Active Board of Directors are entrepreneurs who assist in business development





# 2008 Corporate Initiatives

- Corporate Credit/Special Assets Management
- Corporate-Wide Branching Strategy
- Loan-Level Hedge Program
- Debit Rewards Program
- Customer Cross-Sell Tables
- Small Business Initiative
- Branch Capture



# Merger & Acquisition Growth Strategy





# Merger & Acquisition History

<u>Partner Bank</u>	<u>Closing Date</u>	<u>Partner Total Assets</u>
CNBC	3/01/2003	317,329
Lafayette Bancorporation	4/01/2002	746,111
Francor Financial, Inc.	7/01/2001	157,938
Decatur Bank & Trust Co.	5/31/2000	129,611
Anderson Community Bank	4/21/1999	67,200
Jay Financial Corporation	4/06/1999	103,120
Union National Bancorp	8/01/1996	156,253
Randolph County Bancorp	10/02/1996	71,922
First United Bancorp, Inc.	08/05/1991	46,573

The Strength of BIG.

The Service of small.



# Merger & Acquisition Growth Strategy

- The Corporation believes that its ability to integrate the core system (Fidelity), core platforms (teller, loan, deposit, online banking, IVR), products, human resources, financial reporting and controls, processes and risk management infrastructure is a core competency.
- The Corporation's new 50,000 sq. ft. operations center positions the Corporation to double the size of its balance sheet without outgrowing its infrastructure.
- The Corporation will focus on metropolitan, commercial banking acquisitions.



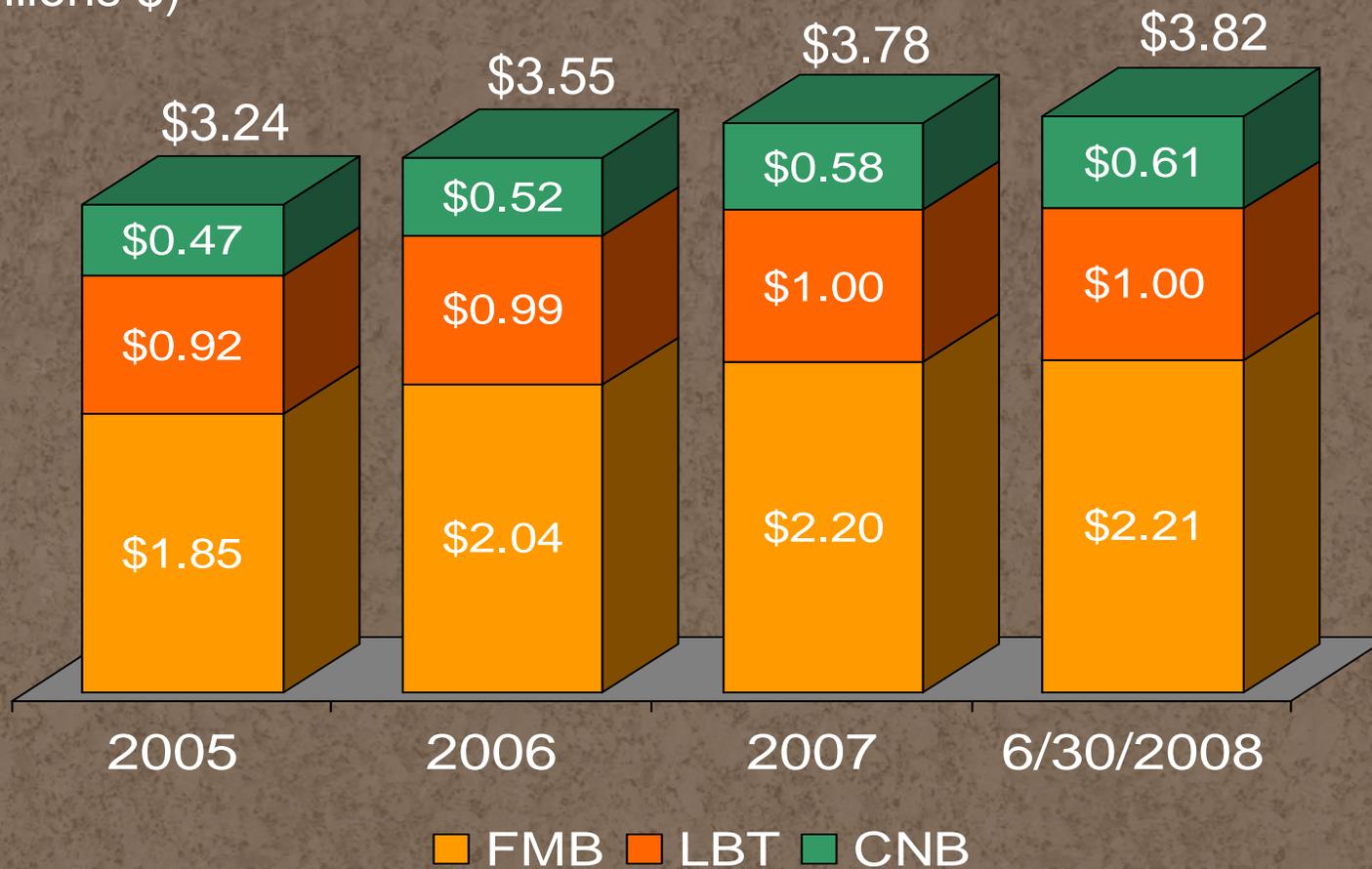
# Financial Performance





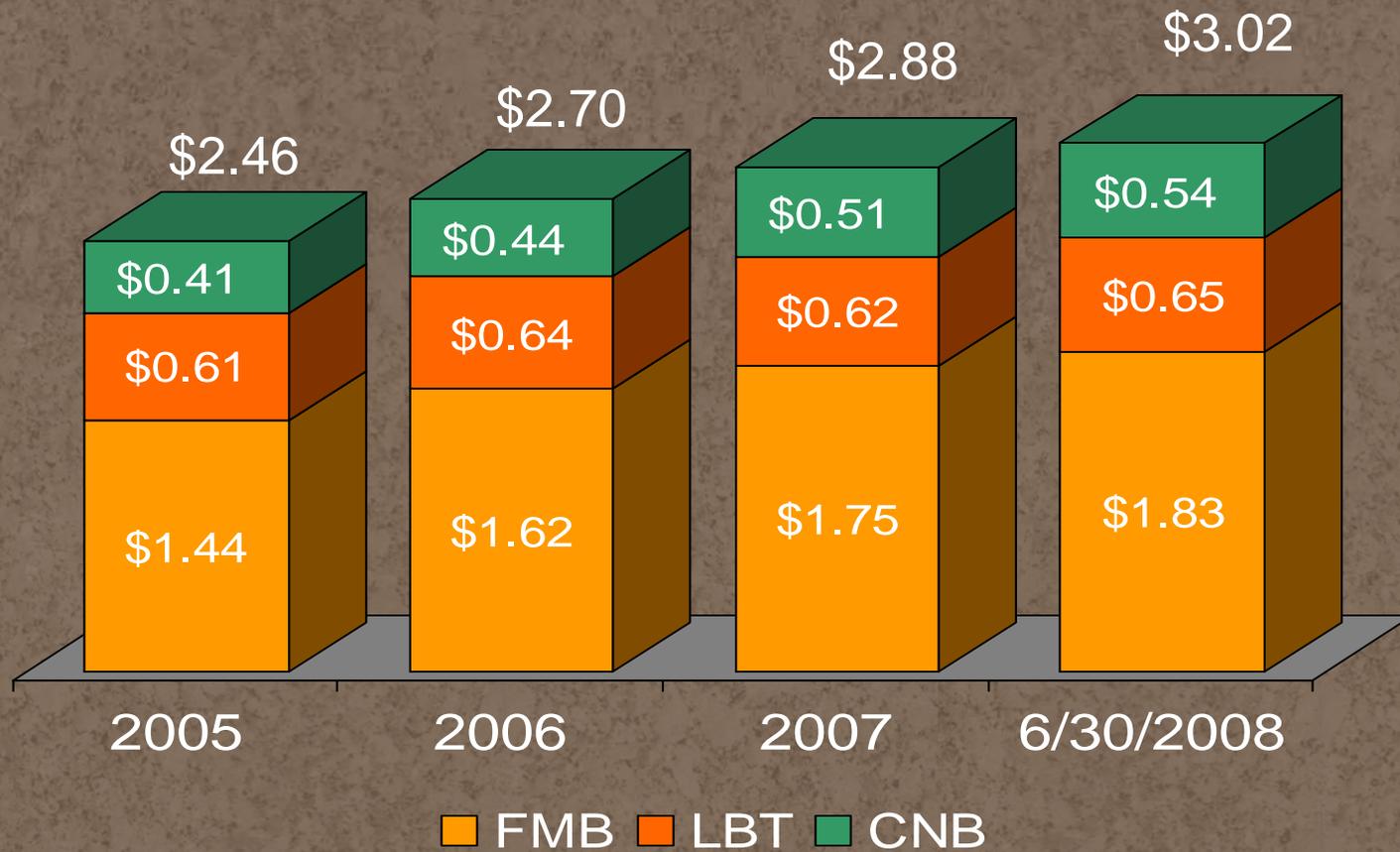
# Asset Growth

(Billions \$)



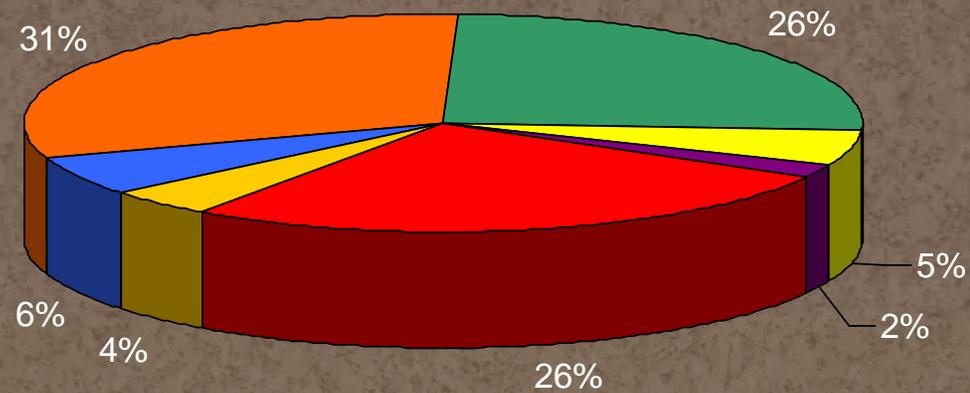


# Total Loans by Market





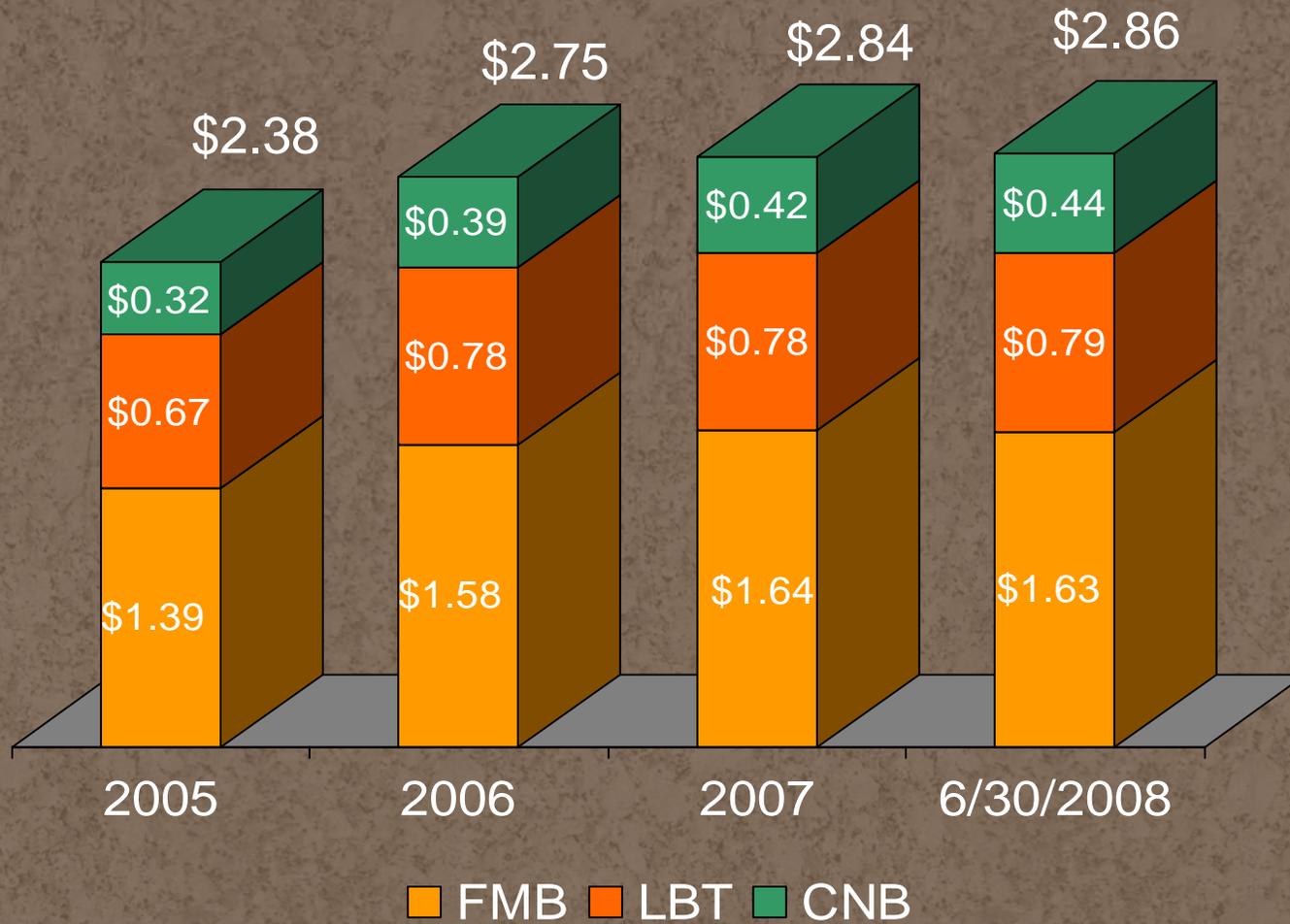
# Loan Composition as of 6/30/08



- Commercial & Industrial Loans
- Agricultural Production Financing & Other Loans to Farmers
- Real Estate Construction
- Commercial & Agricultural Real Estate
- Residential Real Estate
- Individual Loans for Household & Other Personal Expenditure
- Other



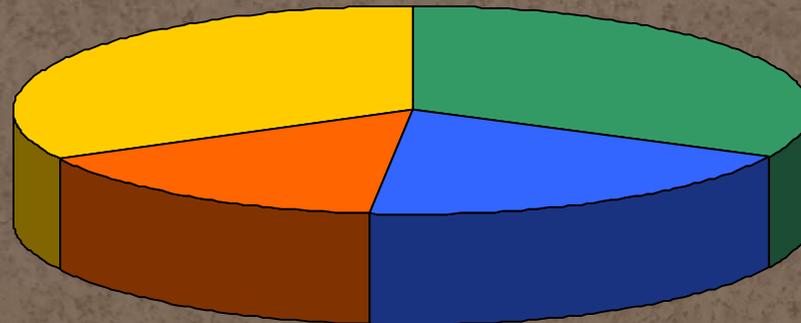
# Total Deposits





# Deposits as of 6/30/08

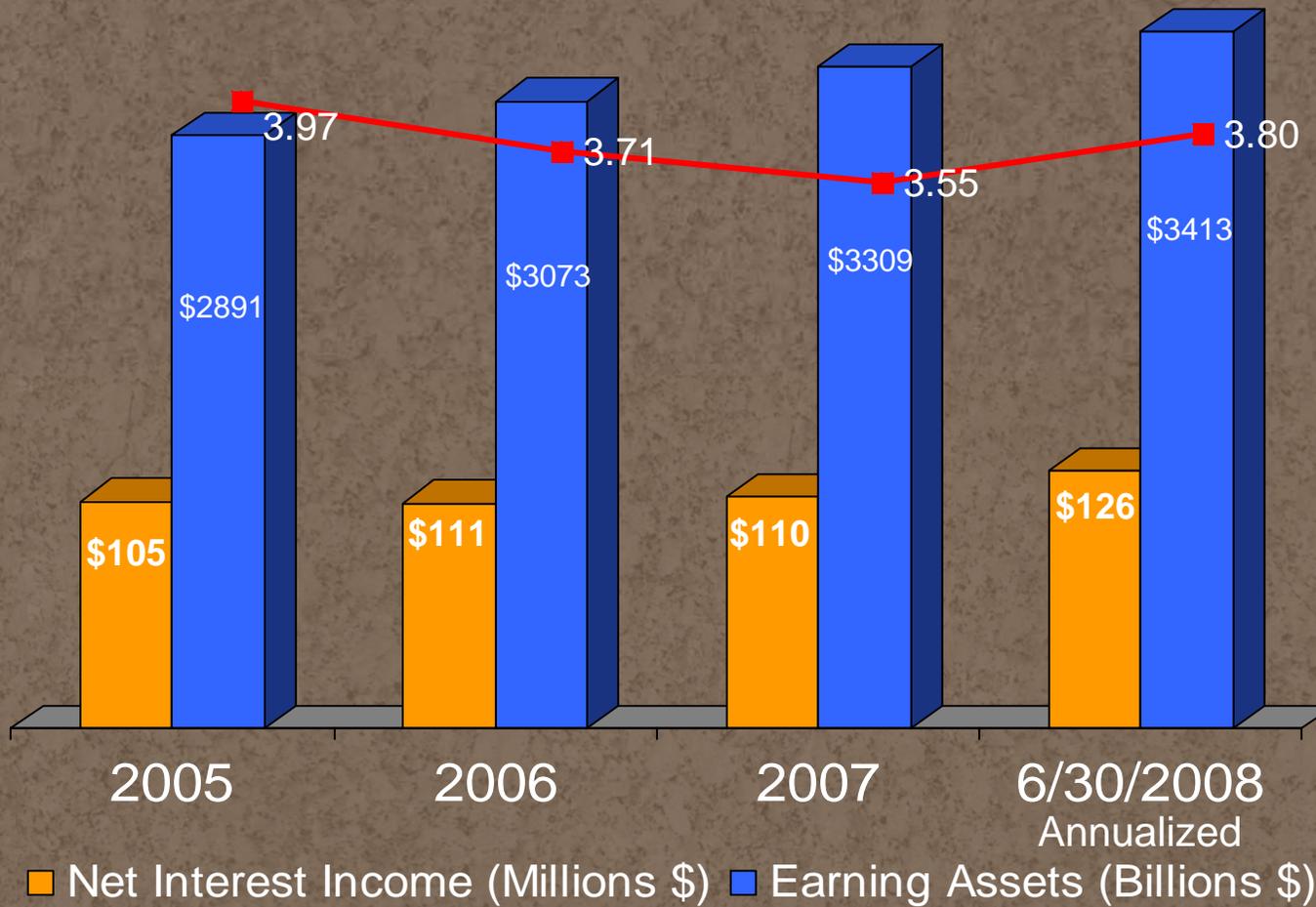
## Cost of Funds



- Demand Deposits - 31% of Total Deposits
- Savings Deposits - 18% of Total Deposits
- Certificates & Time Deposits of >\$100,000 - 16% of Total Deposits
- Certificates & Time Deposits of <\$100,000 - 35% of Total Deposits

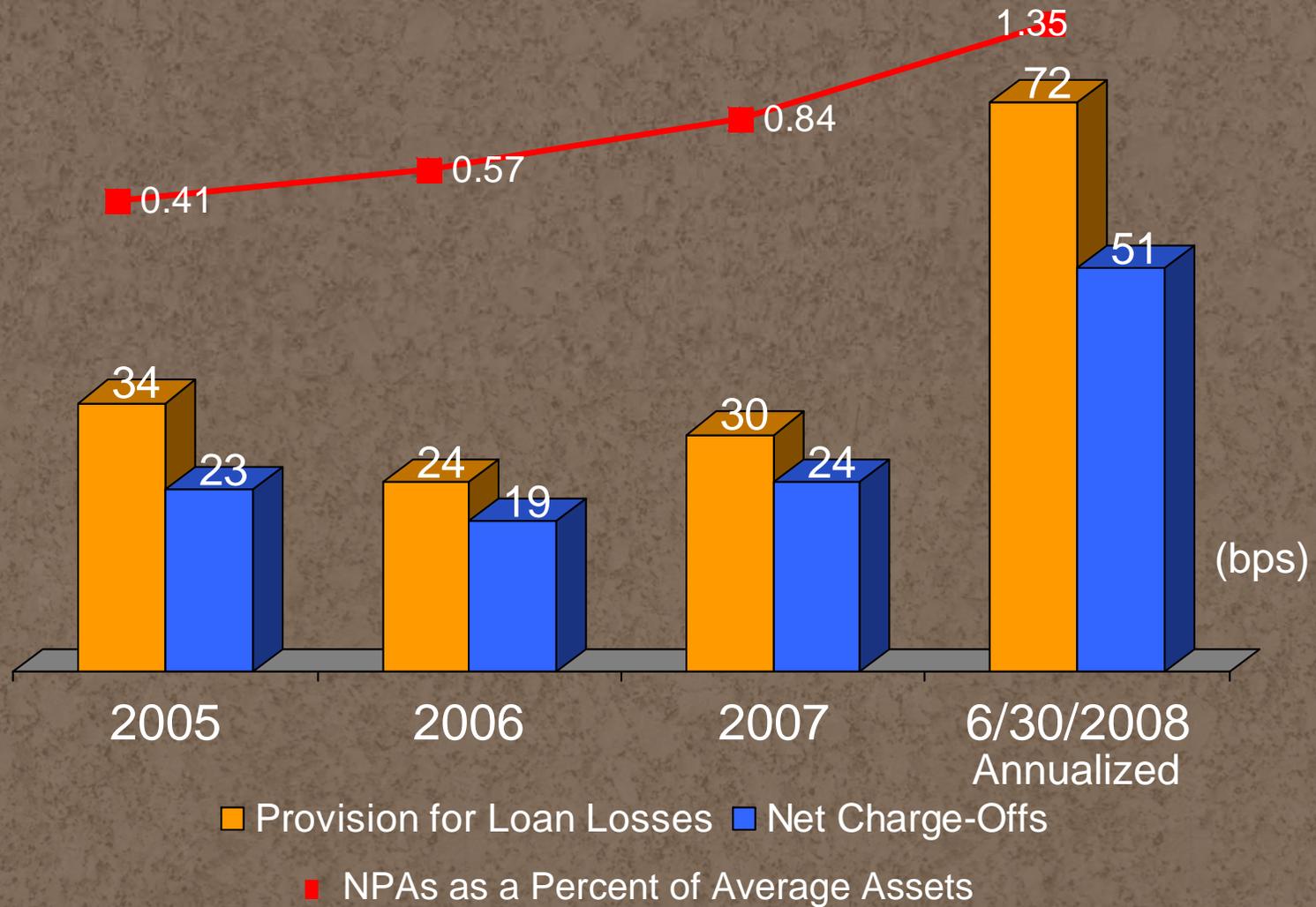


# Net Interest Margin





# Asset Quality - Cost of Credit





# Credit Risk Management

- Corporate Legal Lending Limit of \$52M
- Granular Loan Portfolio Exposure
- Largest Single Commitment \$27M

(Thousands \$)

	<u>Balances of Top 25 Borrowers</u>	<u>Total Loans</u>	<u>% of Total Loans</u>
6/30/08	\$ 242,943	\$ 3,018,596	8.05%
12/31/07	177,080	2,876,843	6.16%
9/30/07	188,357	2,869,001	6.57%
6/30/07	172,681	2,806,068	6.15%



# Past Due Loans





# Non-Accrual Loans



◆ Real Estate Secured  
◆ Individual Loans

■ C&I, Ag Production  
□ Total



# Non-Interest Income

(Millions \$)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>6/30/08</u> <u>Annualized</u>
1. Service Charges on Deposit				
Accounts	\$11.3	\$11.3	\$12.4	\$12.2
2. Trust Fees	7.5	7.6	8.4	8.5
3. Insurance Comm. Income	3.8	4.3	5.1	6.2
4. Cash Surrender Value of Life Ins.	1.7	2.3	3.7	2.7
5. Gains on Sales Mortgage Loans	2.9	2.2	2.4	2.6
6. Other	<u>7.5</u>	<u>6.9</u>	<u>8.6</u>	<u>9.5</u>
7. Total	\$34.7	\$34.6	\$40.6	\$41.7
% of Average Assets	1.09%	1.03%	1.08%	1.10%



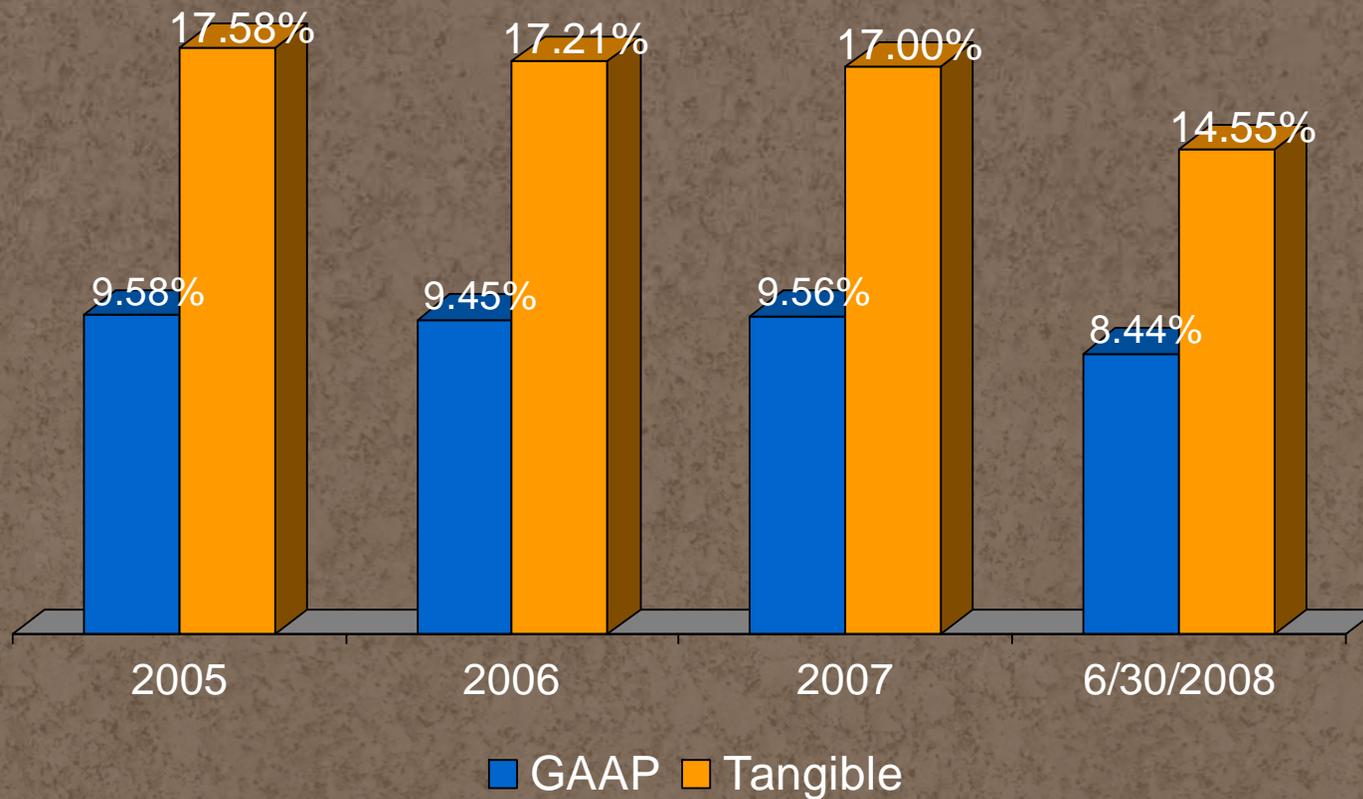
# Non-Interest Expense

(Millions \$)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>6/30/08</u> <u>Annualized</u>
1. Salary & Benefits	\$54.1	\$56.1	\$58.8	\$63.6
2. Premises & Equipment	13.4	13.8	13.4	13.7
3. Write-off of Un-amortized Trust Preferred Underwriting Fee	0	0	1.8	0
4. Core Deposit Intangible	3.1	3.1	3.2	3.2
5. Integration Expenses	0	0	1.1	0
6. Other (Adj.)	<u>23.4</u>	<u>23.1</u>	<u>23.9</u>	<u>24.9</u>
Total	\$94.0	\$96.1	\$102.2	\$105.4
<b>% of Average Assets</b>	<b>2.96%</b>	<b>2.85%</b>	<b>2.71%</b>	<b>2.77%</b>

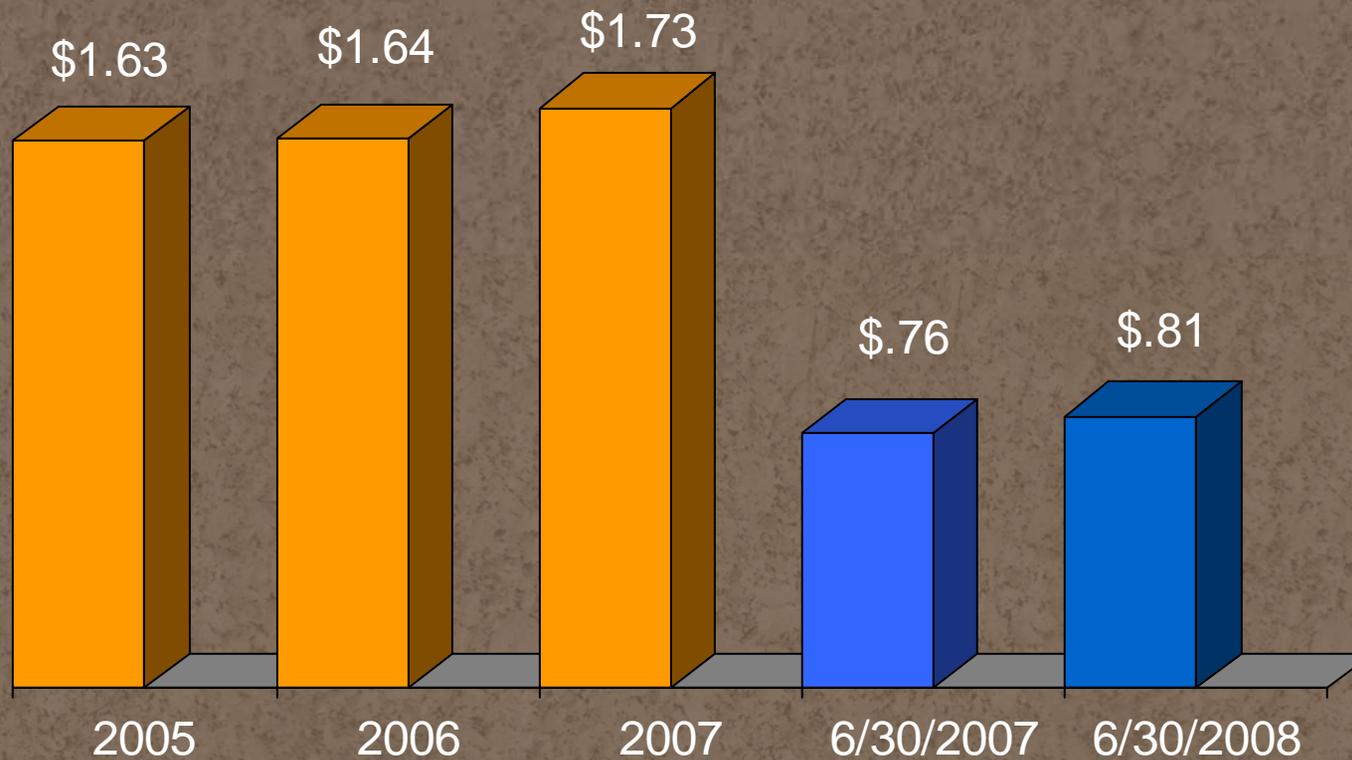


# Return on Equity





# Earnings Per Share





# Why First Merchants

- Energized and Experienced Management Team
- Scalable Operations and Technology Platform
- Increased EPS 31 of the last 32 years
- PE Multiple of 12.7 x 2008 Analyst Earnings Estimates
- PE Multiple of 10.9 x 2009 Analyst Earnings Estimates
- Dividend yield of 4.16%
- Average daily share volume – 110,000
- Annualized loan, deposit, and fee income growth of 8.25%, 6.45%, and 11.35%, respectively, during the last 24 months



“Committed to High Performance”





# Contact Information

First Merchants Corporation common stock is traded on the NASDAQ Global Select Market under the symbol FRME.

Additional information can be found at

[www.firstmerchants.com](http://www.firstmerchants.com)

Investor inquiries:

Mark K. Hardwick

Executive Vice President-Chief Financial Officer

Telephone: 765.751.1857

[mhardwick@firstmerchants.com](mailto:mhardwick@firstmerchants.com)