

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 27, 2017**

Commission File Number 0-17071

**FIRST MERCHANTS CORPORATION**

(Exact name of registrant as specified in its charter)

INDIANA	35-1544218
(State or other jurisdiction of incorporation)	(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))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

**ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

On Thursday, July 27, 2017, First Merchants Corporation will conduct a second quarter earnings conference call and web cast at 2:30 p.m. (ET). A copy of the slide presentation utilized on the conference call is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

**ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.**

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Exhibits.

Exhibit 99.1 Slide presentation, utilized July 27, 2017, during conference call and web cast 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,  
Chief Financial Officer and Chief Operating Officer

Dated: July 27, 2017

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Slide presentation, utilized July 27, 2017, during conference call and web cast by First Merchants Corporation



# First Merchants Corporation

THE STRENGTH OF BIG THE SERVICE OF SMALL

## 2<sup>nd</sup> Quarter 2017 Earnings Highlights July 27, 2017



**Michael C. Rechin**  
President  
Chief Executive Officer

**Mark K. Hardwick**  
Executive Vice President  
Chief Financial Officer  
Chief Operating Officer

**John J. Martin**  
Executive Vice President  
Chief Credit Officer

**NASDAQ: FRME**

# Forward-Looking Statements

This presentation contains forward-looking statements made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements can often, but not always, be identified by the use of words like “believe”, “continue”, “pattern”, “estimate”, “project”, “intend”, “anticipate”, “expect” and similar expressions or future or conditional verbs such as “will”, “would”, “should”, “could”, “might”, “can”, “may”, or similar expressions. These forward-looking statements include, but are not limited to, statements relating to First Merchants’ goals, intentions and expectations; statements regarding the First Merchants’ business plan and growth strategies; statements regarding the asset quality of First Merchants’ loan and investment portfolios; and estimates of First Merchants’ risks and future costs and benefits. These forward-looking statements are subject to significant risks, assumptions and uncertainties that may cause results to differ materially from those set forth in forward-looking statements, including, among other things: possible changes in economic and business conditions; the existence or exacerbation of general geopolitical instability and uncertainty; the ability of First Merchants to integrate recent acquisitions and attract new customers; possible changes in monetary and fiscal policies, and laws and regulations; the effects of easing restrictions on participants in the financial services industry; the cost and other effects of legal and administrative cases; possible changes in the credit worthiness of customers and the possible impairment of collectability of loans; fluctuations in market rates of interest; competitive factors in the banking industry; changes in the banking legislation or regulatory requirements of federal and state agencies applicable to bank holding companies and banks like First Merchants’ affiliate bank; continued availability of earnings and excess capital sufficient for the lawful and prudent declaration of dividends; changes in market, economic, operational, liquidity, credit and interest rate risks associated with the First Merchants’ business; and other risks and factors identified in each of First Merchants’ filings with the Securities and Exchange Commission. First Merchants undertakes no obligation to update any forward-looking statement, whether written or oral, relating to the matters discussed in this presentation or press release. In addition, the company’s past results of operations do not necessarily indicate its anticipated future results.

## NON-GAAP FINANCIAL MEASURES

These slides contain non-GAAP financial measures. For purposes of Regulation G, a non-GAAP financial measure is a numerical measure of the registrant’s historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of income, balance sheet or statement of cash flows (or equivalent statements) of the issuer; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. In this regard, GAAP refers to generally accepted accounting principles in the United States. Pursuant to the requirements of Regulation G, First Merchants Corporation has provided reconciliations within the slides, as necessary, of the non-GAAP financial measure to the most directly comparable GAAP financial measure.

## 2<sup>nd</sup> Quarter 2017 Financial Highlights

- Earnings Per Share of \$ .57, a 16.3% Increase over 2Q2016
- \$24.1 Million of Net Income, a 20.6% Increase over 2Q2016
- Total Assets of \$7.8 Billion Grew by 13.0% over 2Q2016
- Organic Loan Growth of \$114 Million, an 8.6% Annualized Growth Rate
- Organic Deposit Growth of \$129 Million, a 9.2% Annualized Growth Rate

## 2<sup>nd</sup> Quarter 2017 Performance Highlights

- 1.28% Return on Average Assets
- 9.82% Return on Average Equity
- \$16.97 Tangible Book Value Per Share, a 9.3% Increase over 2Q2016
- 53.61% Efficiency Ratio
- Completed Acquisition of The Arlington Bank on May 19, 2017
- Completed Acquisition of Independent Alliance Banks, Inc. on July 14, 2017





# First Merchants Corporation

THE STRENGTH OF BIG THE SERVICE OF SMALL

Mark K. Hardwick  
Executive Vice President  
Chief Operating Officer and  
Chief Financial Officer



**NASDAQ: FRME**

FIRST MERCHANTS CORPORATION | 200 E. Jackson St., P.O. Box 792, Muncie, IN 47305-2814 | 1.785.747.1500

## Total Assets

	<u>2015</u>	<u>2016</u>	<u>Q1-'17</u>	<u>Q2-'17</u>
1. Investments	\$1,277	\$1,305	\$1,327	\$1,343
2. Loans Held for Sale	10	3	1	4
3. Loans	4,694	5,140	5,275	5,613
4. Allowance	(62)	(66)	(68)	(70)
5. CDI & Goodwill	260	259	258	310
6. BOLI	201	202	203	200
7. Other	<u>381</u>	<u>369</u>	<u>330</u>	<u>405</u>
8. Total Assets	<u>\$6,761</u>	<u>\$7,212</u>	<u>\$7,326</u>	<u>\$7,805</u>
<b>Annualized Asset Growth</b>		<b>6.7%</b>		<b>16.4%*</b>

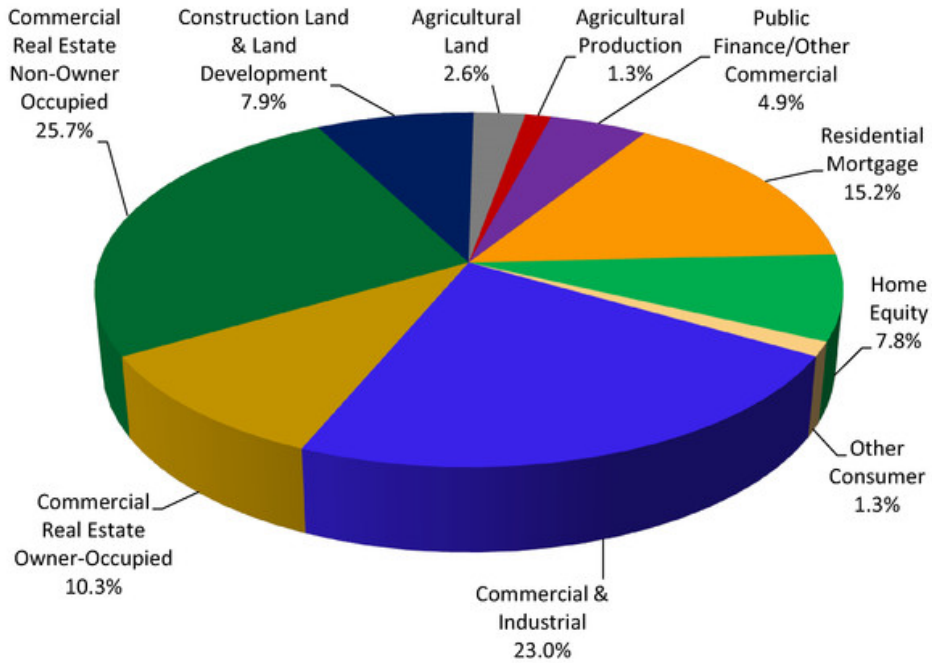
\*Annualized from 12.31.2016

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# Loan and Yield Detail

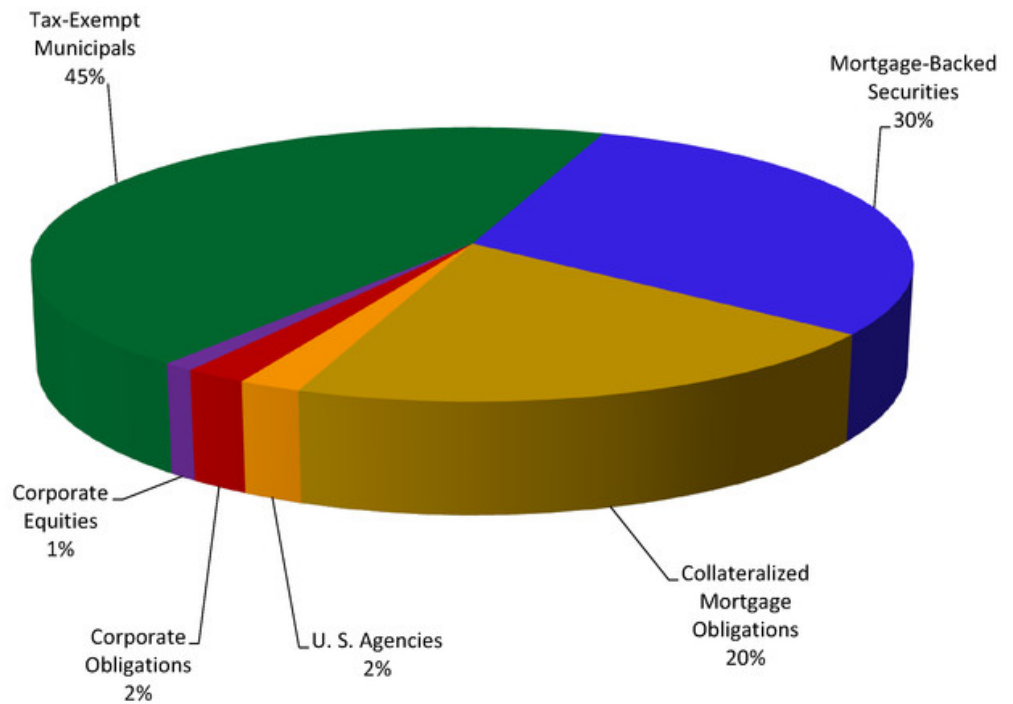
(as of 6/30/2017)

QTD Yield = 4.65%  
 YTD Yield = 4.64%  
 Total Loans = \$5.6 Billion



## Investment Portfolio

(as of 6/30/2017)



- \$1.3 Billion Portfolio
- Modified duration of 4.7 years
- Tax equivalent yield of 3.85%
- Net unrealized gain of \$35.2 Million

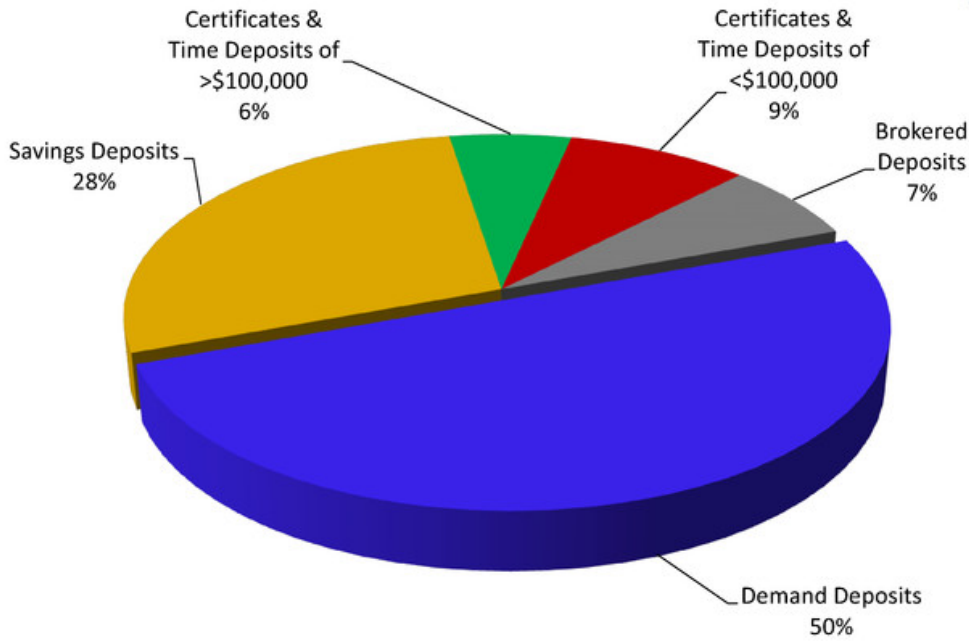
## Total Liabilities and Capital

(\$ in Millions)	<u>2015</u>	<u>2016</u>	<u>Q1-'17</u>	<u>Q2-'17</u>
1. Customer Non-Maturity Deposits	\$4,096	\$4,428	\$4,426	\$4,724
2. Customer Time Deposits	880	747	789	875
3. Brokered Deposits	314	381	420	418
4. Borrowings	446	572	587	581
5. Other Liabilities	51	60	53	49
6. Hybrid Capital	123	122	122	123
7. Common Equity	<u>851</u>	<u>902</u>	<u>929</u>	<u>1,035</u>
8. Total Liabilities and Capital	<u>\$6,761</u>	<u>\$7,212</u>	<u>\$7,326</u>	<u>\$7,805</u>

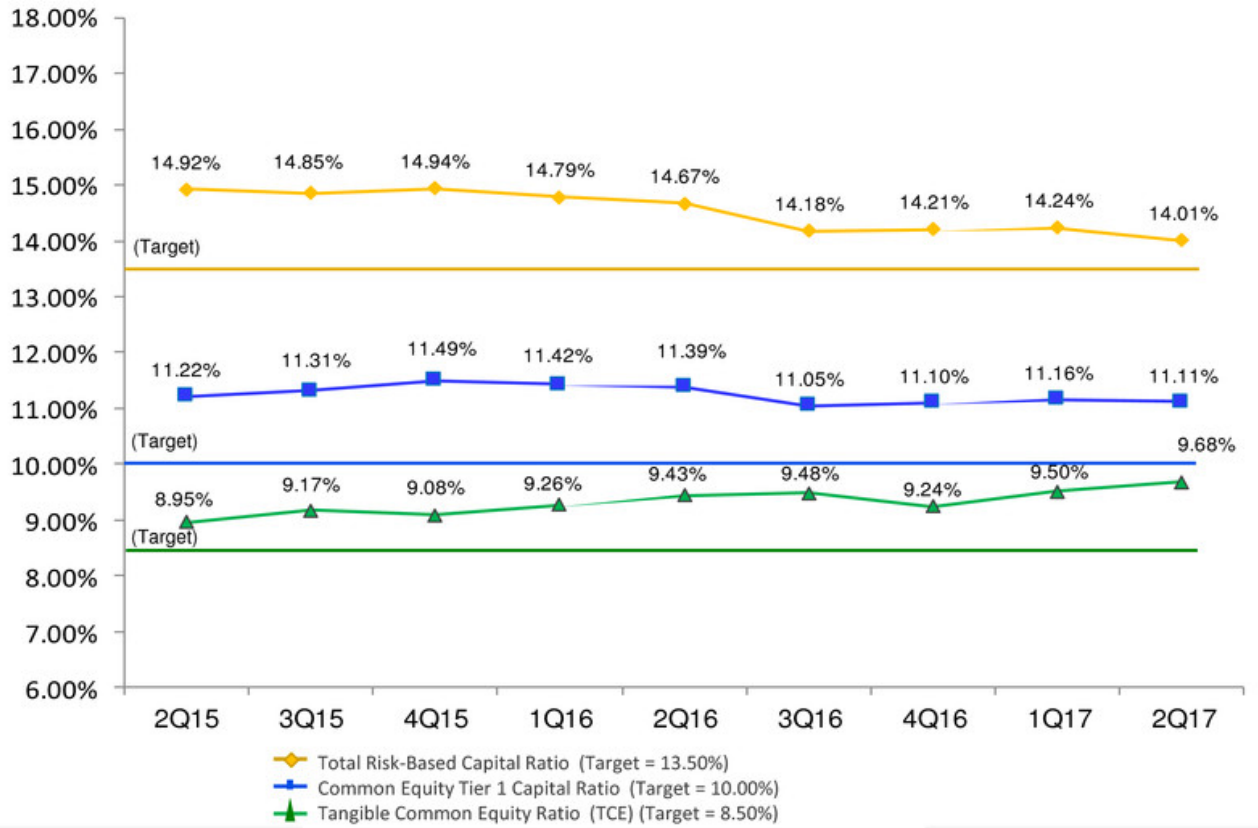
# Deposit Detail

(as of 6/30/2017)

QTD Cost	=	.45%
YTD Cost	=	.42%
Total	=	\$6.0 Billion

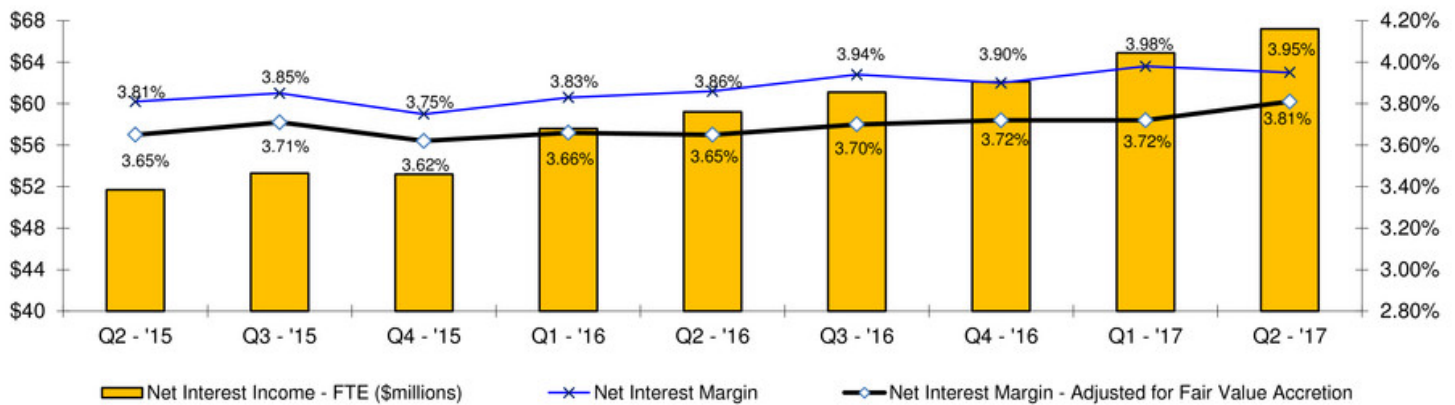


# Capital Ratios



# Net Interest Margin

	Q2 - '15	Q3 - '15	Q4 - '15	Q1 - '16	Q2 - '16	Q3 - '16	Q4 - '16	Q1 - '17	Q2 - '17
Net Interest Income - FTE (\$millions)	\$ 51.7	\$ 53.3	\$ 53.2	\$ 57.6	\$ 59.2	\$ 61.1	\$ 62.1	\$ 64.9	\$ 67.2
Fair Value Accretion	\$ 2.2	\$ 2.0	\$ 1.9	\$ 2.5	\$ 3.2	\$ 3.8	\$ 2.9	\$ 4.3	\$ 2.3
Tax Equivalent Yield on Earning Assets	4.26%	4.30%	4.20%	4.28%	4.30%	4.37%	4.32%	4.42%	4.44%
Cost of Supporting Liabilities	0.45%	0.45%	0.45%	0.45%	0.44%	0.43%	0.42%	0.44%	0.49%
Net Interest Margin	3.81%	3.85%	3.75%	3.83%	3.86%	3.94%	3.90%	3.98%	3.95%





## Non-Interest Income

(\$ in Millions)	<u>2015</u>	<u>2016</u>	<u>Q1-'17</u>	<u>Q2-'17</u>
1. Service Charges on Deposit Accounts	\$16.2	\$17.8	\$ 4.2	\$ 4.4
2. Wealth Management Fees	11.3	12.6	3.4	3.4
3. Insurance Commission Income	4.1	—	—	—
4. Card Payment Fees	13.4	15.0	3.7	4.2
5. Cash Surrender Value of Life Ins	2.9	4.3	0.9	3.0
6. Gains on Sales Mortgage Loans	6.5	7.1	1.3	1.6
7. Securities Gains/Losses	2.7	3.4	0.6	0.6
8. Gain on Sale of Insurance Subsidiary	8.3	—	—	—
9. Gain on Cancellation of Trust Preferred Debt	1.3	—	—	—
10. Other	<u>3.1</u>	<u>5.0</u>	<u>0.8</u>	<u>1.2</u>
11. Total	<u>\$69.8</u>	<u>\$65.2</u>	<u>\$14.9</u>	<u>\$18.4</u>

## Non-Interest Expense

(\$ in Millions)	<u>2015</u>	<u>2016</u>	<u>Q1-'17</u>	<u>Q2-'17</u>
1. Salary & Benefits	\$101.9	\$102.6	\$ 25.7	\$ 27.1
2. Premises & Equipment	25.5	29.5	7.0	6.9
3. Core Deposit Intangible	2.8	3.9	0.9	1.0
4. Professional & Other Outside Services	9.9	6.5	1.7	3.3
5. OREO/Credit-Related Expense	3.9	2.9	0.5	0.7
6. FDIC Expense	3.7	3.0	0.6	0.6
7. Outside Data Processing	7.1	9.2	2.6	3.1
8. Marketing	3.5	3.0	0.6	0.8
9. Other	<u>16.5</u>	<u>16.7</u>	<u>3.5</u>	<u>3.8</u>
10. Non-Interest Expense	<u>\$174.8</u>	<u>\$177.3</u>	<u>\$43.1</u>	<u>\$47.3</u>

## Earnings

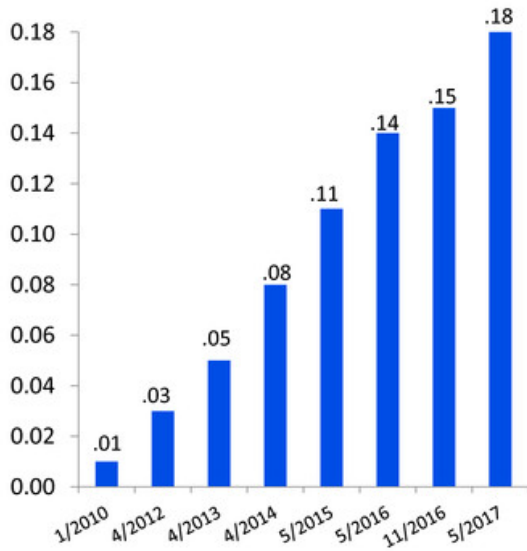
(\$ in Millions)	<u>2015</u>	<u>2016</u>	<u>Q1-'17</u>	<u>Q2-'17</u>
1. Net Interest Income	\$196.4	\$226.5	\$ 61.0	\$ 63.1
2. Provision for Loan Losses	<u>(0.4)</u>	<u>(5.7)</u>	<u>(2.4)</u>	<u>(2.9)</u>
3. <b>Net Interest Income after Provision</b>	<b>196.0</b>	<b>220.8</b>	<b>58.6</b>	<b>60.2</b>
4. Non-Interest Income	69.8	65.2	14.9	18.4
5. Non-Interest Expense	<u>(174.8)</u>	<u>(177.3)</u>	<u>(43.1)</u>	<u>(47.3)</u>
6. <b>Income before Income Taxes</b>	<b>91.0</b>	<b>108.7</b>	<b>30.4</b>	<b>31.3</b>
7. Income Tax Expense	<u>(25.6)</u>	<u>(27.6)</u>	<u>(7.2)</u>	<u>(7.2)</u>
8. <b>Net Income Avail. for Distribution</b>	<b><u>\$ 65.4</u></b>	<b><u>\$ 81.1</u></b>	<b><u>\$ 23.2</u></b>	<b><u>\$ 24.1</u></b>
9. <b>EPS</b>	<b>\$ 1.72</b>	<b>\$ 1.98</b>	<b>\$ 0.56</b>	<b>\$ 0.57</b>
10. <b>Efficiency Ratio</b>	<b>61.19%</b>	<b>56.51%</b>	<b>52.61%</b>	<b>53.61%</b>

## Per Share Results

<b><u>2016</u></b>	<b><u>Q1</u></b>	<b><u>Q2</u></b>	<b><u>Q3</u></b>	<b><u>Q4</u></b>	<b><u>Total</u></b>
1. Earnings Per Share	\$ .43	\$ .49	\$ .51	\$ .55	\$ 1.98
2. Dividends	\$ .11	\$ .14	\$ .14	\$ .15	\$ .54
3. Tangible Book Value	\$15.02	\$15.53	\$15.86	\$15.85	
<b><u>2017</u></b>	<b><u>Q1</u></b>	<b><u>Q2</u></b>	<b><u>Q3</u></b>	<b><u>Q4</u></b>	<b><u>Total</u></b>
1. Earnings Per Share	\$ .56	\$ .57	–	–	\$ 1.13
2. Dividends	\$ .15	.18	–	–	\$ .33
3. Tangible Book Value	\$16.49	\$16.97	–	–	

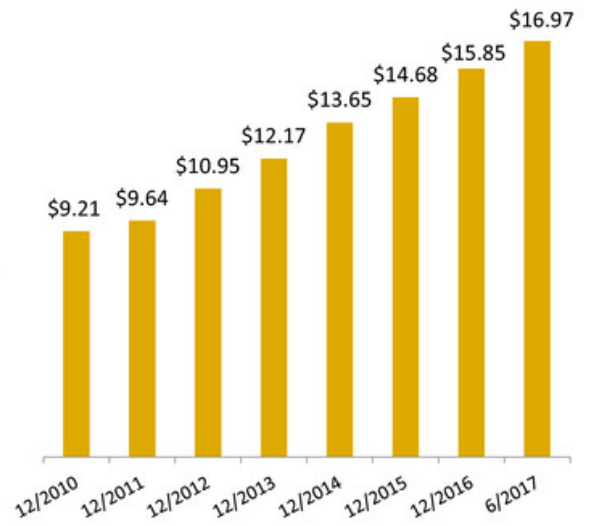
# Dividends and Tangible Book Value

Quarterly Dividends



1.79%  
Forward  
Dividend  
Yield  
  
= 29.2%  
YTD Dividend  
Payout Ratio

Tangible Book Value





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John J. Martin  
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## Loan Portfolio Trends

(\$ in Millions)	2015	2016	Q1-'17	Q2-'17 <sup>1</sup>	Arlington	FMB Q2-'17	Change Linked Quarter		
							\$ <sup>1</sup>	\$	%
1. Commercial & Industrial	\$ 1,057	\$ 1,195	\$ 1,259	\$ 1,287	\$ 3	\$ 1,290	\$ 28	\$ 31	2.5%
2. Construction, Land and Land Development	367	419	337	418	24	442	81	105	31.2%
3. CRE Non-Owner Occupied	1,090	1,272	1,423	1,385	59	1,444	(38)	21	1.5%
4. CRE Owner Occupied	554	531	549	552	25	577	3	28	5.1%
5. Agricultural Production	98	80	77	76	-	76	(1)	(1)	(1.3%)
6. Agricultural Land	158	149	146	147	-	147	1	1	0.7%
7. Residential Mortgage	786	739	738	749	99	848	11	110	14.9%
8. Home Equity	349	419	424	422	14	436	(2)	12	2.8%
9. Public Finance/Other Commercial	160	258	244	274	-	274	30	30	12.3%
10. Other Consumer	75	78	78	79	-	79	1	1	1.3%
<b>11. Total Loans</b>	<b>\$ 4,694</b>	<b>\$ 5,140</b>	<b>\$ 5,275</b>	<b>\$ 5,389</b>	<b>\$ 224</b>	<b>\$ 5,613</b>	<b>\$ 114</b>	<b>\$ 338</b>	<b>6.4%</b>
12. Construction Concentration <sup>2</sup>	50%	52%	41%			51%			
13. Investment RE Concentration <sup>2</sup>	197%	211%	215%			216%			

<sup>1</sup> Excludes acquired Arlington Bank loans

<sup>2</sup> As a % of Risk Based Capital

## Asset Quality Summary

(\$ in Millions)

	2015	2016	Q1-'17	FMB			Change Linked Quarter		
				Q2-'17 <sup>1</sup>	Arlington	Q2-'17	\$ <sup>1</sup>	\$	%
1. Non-Accrual Loans	\$ 31.4	\$ 30.0	\$ 27.9	\$ 26.1	\$ 1.3	\$ 27.4	\$ (1.8)	\$ (0.5)	(1.8%)
2. Other Real Estate	17.3	9.0	8.3	11.9	-	11.9	3.6	3.6	43.4%
3. Renegotiated Loans	1.9	4.7	0.9	0.4	-	0.4	(0.5)	(0.5)	(55.6%)
4. 90+ Days Delinquent Loans	0.9	0.1	0.1	0.2	0.4	0.6	0.1	0.5	500.0%
<b>5. Total NPAs &amp; 90+ Days Delinquent</b>	<b>\$ 51.5</b>	<b>\$ 43.8</b>	<b>\$ 37.2</b>	<b>\$ 38.6</b>	<b>\$ 1.7</b>	<b>\$ 40.3</b>	<b>\$ 1.4</b>	<b>\$ 3.1</b>	<b>8.3%</b>
6. Total NPAs & 90+ Days/Loans & ORE	1.1%	0.9%	0.7%	0.7%	0.8%	0.7%			
<b>7. Classified Assets</b>	<b>\$ 171.8</b>	<b>\$ 174.1</b>	<b>\$ 173.9</b>	<b>\$ 143.3</b>	<b>\$ 5.5</b>	<b>\$ 148.8</b>	<b>\$ (30.6)</b>	<b>\$ (25.1)</b>	<b>(14.4%)</b>
<b>8. Criticized Assets (includes Classified)</b>	<b>\$ 275.0</b>	<b>\$ 292.6</b>	<b>\$ 304.3</b>	<b>\$ 244.0</b>	<b>\$ 5.5</b>	<b>\$ 249.5</b>	<b>\$ (60.3)</b>	<b>\$ (54.8)</b>	<b>(18.0%)</b>

<sup>1</sup> Excludes acquired Arlington Bank loans



## Non-Performing Asset Reconciliation

(\$ in Millions)

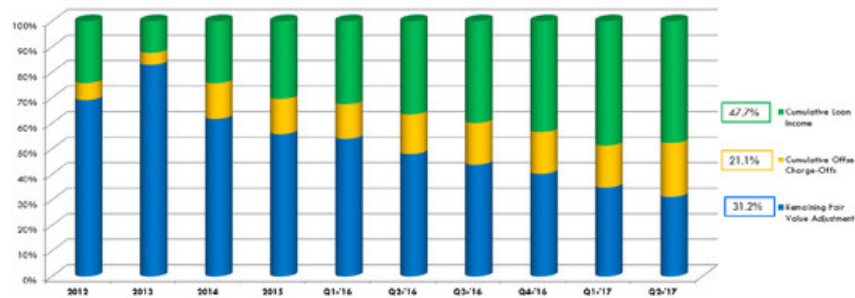
	<u>Q3-'16</u>	<u>Q4-'16</u>	<u>Q1-'17</u>	<u>Q2-'17<sup>1</sup></u>	<u>Arlington</u>	<u>FMB</u> <u>Q2-'17</u>
<b>1. Beginning Balance NPAs &amp; 90+ Days Delinquent</b>	\$ 51.5	\$ 49.9	\$ 43.8	\$ 37.2		\$ 37.2
Non-Accrual						
2. Add: New Non-Accruals	6.0	4.3	2.5	8.7	\$ 1.3	10.0
3. Less: To Accrual/Payoff/Renegotiated	(3.2)	(6.5)	(2.6)	(2.3)	-	(2.3)
4. Less: To OREO	(0.4)	(0.9)	(0.5)	(6.8)	-	(6.8)
5. Less: Charge-offs	<u>(1.9)</u>	<u>(1.0)</u>	<u>(1.5)</u>	<u>(1.4)</u>	-	<u>(1.4)</u>
<b>6. Increase / (Decrease): Non-Accrual Loans</b>	<b>0.5</b>	<b>(4.1)</b>	<b>(2.1)</b>	<b>(1.8)</b>	<b>1.3</b>	<b>(0.5)</b>
Other Real Estate Owned (ORE)						
7. Add: New ORE Properties	0.4	0.9	0.5	6.8	-	6.8
8. Less: ORE Sold	(3.1)	(1.5)	(1.0)	(2.8)	-	(2.8)
9. Less: ORE Losses (write-downs)	<u>(0.3)</u>	<u>(0.6)</u>	<u>(0.2)</u>	<u>(0.4)</u>	-	<u>(0.4)</u>
<b>10. Increase / (Decrease): ORE</b>	<b>(3.0)</b>	<b>(1.2)</b>	<b>(0.7)</b>	<b>3.6</b>	<b>0.0</b>	<b>3.6</b>
<b>11. Increase / (Decrease): 90+ Days Delinquent</b>	<b>1.2</b>	<b>(1.5)</b>	<b>0.0</b>	<b>0.1</b>	<b>0.4</b>	<b>0.5</b>
<b>12. Increase / (Decrease): Renegotiated Loans</b>	<b><u>(0.3)</u></b>	<b><u>0.7</u></b>	<b><u>(3.8)</u></b>	<b><u>(0.5)</u></b>	<b><u>0.0</u></b>	<b><u>(0.5)</u></b>
<b>13. Total NPAs &amp; 90+ Days Delinquent Change</b>	<b><u>(1.6)</u></b>	<b><u>(6.1)</u></b>	<b><u>(6.6)</u></b>	<b><u>1.4</u></b>	<b><u>1.7</u></b>	<b><u>3.1</u></b>
<b>14. Ending Balance NPAs &amp; 90+ Days Delinquent</b>	\$ 49.9	\$ 43.8	\$ 37.2	\$ 38.6	\$ 1.7	\$ 40.3

<sup>1</sup> Excludes acquired Arlington Bank loans

## ALLL and Fair Value Summary

(\$ in Millions)	<u>Q3-'16</u>	<u>Q4-'16</u>	<u>Q1-'17</u>	<u>Q2-'17</u>
1. Beginning Allowance for Loan Losses (ALLL)	\$ 62.2	\$ 63.5	\$ 66.0	\$ 68.2
2. Net Charge-offs (Recoveries)	0.6	(0.1)	0.2	0.6
3. Provision Expense	<u>1.9</u>	<u>2.4</u>	<u>2.4</u>	<u>2.9</u>
4. Ending Allowance for Loan Losses (ALLL)	63.5	66.0	68.2	70.5
5. Fair Value Adjustment (FVA)	<u>37.9</u>	<u>34.9</u>	<u>30.6</u>	<u>29.7</u>
6. Total ALLL plus FVA	101.4	100.9	98.8	100.2
7. Purchased Loans plus FVA	771.6	700.4	639.3	792.6
8. Specific Reserves	1.6	0.9	1.2	1.2
9. ALLL/Non-Accrual Loans	186.1%	220.1%	244.4%	257.7%
10. <b>ALLL/Non-Purchased Loans</b>	<b>1.50%</b>	<b>1.47%</b>	<b>1.46%</b>	<b>1.45%</b>
11. <b>ALLL/Loans</b>	<b>1.28%</b>	<b>1.28%</b>	<b>1.29%</b>	<b>1.25%</b>
12. ALLL & FVA/Total Loan Balances plus FVA <sup>1</sup>	2.02%	1.95%	1.86%	1.77%

<sup>1</sup> Management uses this Non-GAAP measure to demonstrate coverage and credit risk



## Asset Quality & Portfolio Summary

- Strong organic quarterly loan growth of \$114 million led by Construction, C&I and Public Finance. With Arlington Bank, loans grew \$338 million.
- Construction and CRE portfolios are 51% and 216% of risk-based capital, respectively; well beneath regulatory guidelines.
- Total Criticized loans decreased \$60.3 million this quarter with Classified dropping by \$31 million.
- Provision expense of \$2.9 million for growth in loan portfolio.
- ALLL to Loans of 1.25% and to Non-Purchased Loans of 1.45%.



# First Merchants Corporation

THE STRENGTH OF BIG THE SERVICE OF SMALL

Michael C. Rechin  
President and Chief  
Executive Officer



**NASDAQ: FRME**

FIRST MERCHANTS CORPORATION | 200 E. Jackson St., P.O. Box 792, Muncie, IN 47305-2814 | 1.785.747.1500

## FMC Strategy and Tactics Overview

### Looking Forward . . .

- Drive to gain the synergies and market expansion the Arlington Bank and Independent Alliance Bank acquisitions offer.
- Win in all our Markets in all Businesses; Lending, Deposit Gathering, Payments, and Private Wealth Management; be the service-driven alternative to super-regional bank competitors
- Continue Implementation of Workflow Technologies and Automation Agents for Back-Office Efficiency and Operating Leverage
- Expand Specialty Finance Business in Asset Based Lending, Sponsor Finance, and Public Finance
- Persistently Focus on Banking Center Optimization in Alignment with Digital Channels Migration
- Prepare to Successfully Cross the \$10 Billion Asset Level

***“Responsive, Knowledgeable, High-Performing”***

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## 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)**

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# First Merchants Corporation

THE STRENGTH OF BIG THE SERVICE OF SMALL

## Appendix



**NASDAQ: FRME**

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## Appendix – Non-GAAP Reconciliation

**CAPITAL RATIOS (dollars in thousands):**

	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
<b>Total Risk-Based Capital Ratio</b>									
Total Stockholders' Equity (GAAP)	749,955	766,984	850,509	867,263	887,550	900,865	901,657	929,470	1,035,116
Adjust for Accumulated Other Comprehensive (Income) Loss <sup>a</sup>	6,490	3,614	1,362	(2,066)	(7,035)	(3,924)	13,581	3,722	(1,384)
Less: Preferred Stock	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)
Add: Qualifying Capital Securities	56,827	51,827	55,776	55,236	55,296	55,355	55,415	55,474	55,534
Less: Tier 1 Capital Deductions	(2,371)	(3,418)	(2,516)	(1,999)	(1,828)	(1,440)	(376)	(80)	(166)
Less: Disallowed Goodwill and Intangible Assets	(208,980)	(208,749)	(247,006)	(250,367)	(249,932)	(249,541)	(249,104)	(250,493)	(300,307)
Less: Disallowed Deferred Tax Assets	(1,581)	(1,144)	(1,677)	(2,998)	(2,743)	(2,161)	(564)	(320)	(665)
Total Tier 1 Capital (Regulatory)	\$ 600,215	\$ 608,989	\$ 656,323	\$ 664,944	\$ 681,183	\$ 699,029	\$ 720,484	\$ 737,648	\$ 788,003
Qualifying Subordinated Debentures	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000
Allowance for Loan Losses includible in Tier 2 Capital	60,865	62,012	62,453	62,086	62,186	63,456	66,037	68,225	70,471
Total Risk-Based Capital (Regulatory)	\$ 726,080	\$ 736,001	\$ 783,776	\$ 792,030	\$ 808,369	\$ 827,485	\$ 851,521	\$ 870,873	\$ 923,474
Net Risk-Weighted Assets (Regulatory)	\$ 4,865,157	\$ 4,956,737	\$ 5,247,617	\$ 5,355,827	\$ 5,511,557	\$ 5,836,806	\$ 5,993,381	\$ 6,114,112	\$ 6,592,710
<b>Total Risk-Based Capital Ratio (Regulatory)</b>	<b>14.92%</b>	<b>14.85%</b>	<b>14.94%</b>	<b>14.79%</b>	<b>14.67%</b>	<b>14.18%</b>	<b>14.21%</b>	<b>14.24%</b>	<b>14.01%</b>
<b>Common Equity Tier 1 Capital Ratio</b>									
Total Tier 1 Capital (Regulatory)	\$ 600,215	\$ 608,989	\$ 656,323	\$ 664,944	\$ 681,183	\$ 699,029	\$ 720,484	\$ 737,648	\$ 788,003
Less: Qualified Capital Securities	(56,827)	(51,827)	(55,776)	(55,236)	(55,296)	(55,355)	(55,415)	(55,474)	(55,534)
Add: Additional Tier 1 Capital Deductions	2,371	3,418	2,516	1,999	1,828	1,440	376	80	166
Less: Preferred Stock									
Common Equity Tier 1 Capital (Regulatory)	\$ 545,759	\$ 560,580	\$ 603,063	\$ 611,707	\$ 627,715	\$ 645,114	\$ 665,445	\$ 682,254	\$ 732,635
Net Risk-Weighted Assets (Regulatory)	\$ 4,865,157	\$ 4,956,737	\$ 5,247,617	\$ 5,355,827	\$ 5,511,557	\$ 5,836,806	\$ 5,993,381	\$ 6,114,112	\$ 6,592,710
<b>Common Equity Tier 1 Capital Ratio (Regulatory)</b>	<b>11.22%</b>	<b>11.31%</b>	<b>11.49%</b>	<b>11.42%</b>	<b>11.39%</b>	<b>11.05%</b>	<b>11.10%</b>	<b>11.16%</b>	<b>11.11%</b>

<sup>a</sup> Includes net unrealized gains or losses on securities available for sale, net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.



## Appendix – Non-GAAP Reconciliation

**TANGIBLE COMMON EQUITY RATIO (dollars in thousands):**

	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Total Stockholders' Equity (GAAP)	\$ 749,955	\$ 766,984	\$ 850,509	\$ 867,263	\$ 887,550	\$ 900,865	\$ 901,657	\$ 929,470	\$ 1,035,116
Less: Preferred Stock	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)
Less: Intangible Assets	(220,196)	(219,503)	(259,764)	(261,799)	(260,822)	(259,844)	(258,866)	(257,963)	(309,686)
<b>Tangible Common Equity (non-GAAP)</b>	<b>\$ 529,634</b>	<b>\$ 547,356</b>	<b>\$ 590,620</b>	<b>\$ 605,339</b>	<b>\$ 626,603</b>	<b>\$ 640,896</b>	<b>\$ 642,666</b>	<b>\$ 671,382</b>	<b>\$ 725,305</b>
Total Assets (GAAP)	\$ 6,140,308	\$ 6,189,797	\$ 6,761,003	\$ 6,798,539	\$ 6,906,418	\$ 7,022,352	\$ 7,211,611	\$ 7,326,193	\$ 7,805,029
Less: Intangibles Assets	(220,196)	(219,503)	(259,764)	(261,799)	(260,822)	(259,844)	(258,866)	(257,963)	(309,686)
<b>Tangible Assets (non-GAAP)</b>	<b>\$ 5,920,112</b>	<b>\$ 5,970,294</b>	<b>\$ 6,501,239</b>	<b>\$ 6,536,740</b>	<b>\$ 6,645,596</b>	<b>\$ 6,762,508</b>	<b>\$ 6,952,745</b>	<b>\$ 7,068,230</b>	<b>\$ 7,495,343</b>
<b>Tangible Common Equity Ratio (non-GAAP)</b>	<b>8.95%</b>	<b>9.17%</b>	<b>9.08%</b>	<b>9.26%</b>	<b>9.43%</b>	<b>9.48%</b>	<b>9.24%</b>	<b>9.50%</b>	<b>9.68%</b>

**TANGIBLE COMMON EQUITY PER SHARE (dollars in thousands):**

	4Q10	4Q11	4Q12	4Q13	4Q14	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Total Stockholders' Equity (GAAP)	\$ 454,408	\$ 514,467	\$ 552,236	\$ 634,923	\$ 726,827	\$ 850,509	\$ 867,263	\$ 887,550	\$ 900,865	\$ 901,657	\$ 929,470	\$ 1,035,116
Less: Preferred Stock	(67,880)	(90,783)	(90,908)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)
Less: Intangible Assets	(154,019)	(150,471)	(149,529)	(202,767)	(218,755)	(259,764)	(261,799)	(260,822)	(259,844)	(258,866)	(257,963)	(309,686)
Tax Benefit	2,907	2,224	2,249	4,973	6,085	6,278	6,753	6,453	6,204	5,930	5,659	6,941
<b>Tangible Common Equity, Net of Tax (non-GAAP)</b>	<b>\$ 235,416</b>	<b>\$ 275,437</b>	<b>\$ 314,048</b>	<b>\$ 437,004</b>	<b>\$ 514,032</b>	<b>\$ 596,898</b>	<b>\$ 612,092</b>	<b>\$ 633,056</b>	<b>\$ 647,100</b>	<b>\$ 648,596</b>	<b>\$ 677,041</b>	<b>\$ 732,246</b>
Shares Outstanding	25,574,251	28,559,707	28,692,616	35,921,761	37,669,948	40,664,258	40,749,340	40,772,896	40,799,025	40,912,697	41,047,543	43,153,509
<b>Tangible Common Equity per Share (non-GAAP)</b>	<b>\$ 9.21</b>	<b>\$ 9.64</b>	<b>\$ 10.95</b>	<b>\$ 12.17</b>	<b>\$ 13.65</b>	<b>\$ 14.68</b>	<b>\$ 15.02</b>	<b>\$ 15.53</b>	<b>\$ 15.86</b>	<b>\$ 15.85</b>	<b>\$ 16.49</b>	<b>\$ 16.97</b>

## Appendix – Non-GAAP Reconciliation

**EFFICIENCY RATIO (dollars in thousands):**

	2015	2016	1Q17	2Q17
Non Interest Expense (GAAP)	\$ 174,806	\$ 177,359	\$ 43,099	\$ 47,316
Less: Core Deposit Intangible Amortization	(2,835)	(3,910)	(903)	(991)
Less: OREO and Foreclosure Expenses	(3,956)	(2,877)	(531)	(731)
Adjusted Non Interest Expense (non-GAAP)	168,015	170,572	41,665	45,594
Net Interest Income (GAAP)	196,404	226,473	60,999	63,100
Plus: Fully Taxable Equivalent Adjustment	10,975	13,541	3,950	4,083
Net Interest Income on a Fully Taxable Equivalent Basis (non-GAAP)	207,379	240,014	64,949	67,183
Non Interest Income (GAAP)	69,868	65,203	14,846	18,434
Less: Investment Securities Gains (Losses)	(2,670)	(3,389)	(598)	(567)
Adjusted Non Interest Income (non-GAAP)	67,198	61,814	14,248	17,867
Adjusted Revenue (non-GAAP)	274,577	301,828	79,197	85,050
<b>Efficiency Ratio (non-GAAP)</b>	<b>61.19%</b>	<b>56.51%</b>	<b>52.61%</b>	<b>53.61%</b>

**FORWARD DIVIDEND YIELD**

	2Q17
Most recent quarter's dividend per share	\$ 0.18
Most recent quarter's dividend per share - Annualized	\$ 0.72
Stock Price at 6/30/17	\$ 40.14
<b>Forward Dividend Yield</b>	<b>1.79%</b>

**DIVIDEND PAYOUT RATIO**

	2017 YTD
Dividends per share	\$ 0.33
Earnings Per Share	\$ 1.13
<b>Dividend Payout Ratio - YTD</b>	<b>29.2%</b>

# Appendix – Non-GAAP Reconciliation

**CONSTRUCTION AND INVESTMENT REAL ESTATE CONCENTRATIONS (dollars in thousands):**

	2015	2016	1Q17	2Q17
<b>Total Risk-Based Capital (Subsidiary Bank Only)</b>				
Total Stockholders' Equity (GAAP)	\$ 927,774	\$ 973,641	\$ 993,130	\$ 1,099,762
Adjust for Accumulated Other Comprehensive (Income) Loss <sup>1</sup>	(579)	9,701	8,226	3,830
Less: Preferred Stock	(125)	(125)	(125)	(125)
Less: Tier 1 Capital Deductions	(1,903)	-	-	-
Less: Disallowed Goodwill and Intangible Assets	(246,558)	(248,656)	(250,047)	(299,859)
Less: Disallowed Deferred Tax Assets	(1,269)	-	-	-
Total Tier 1 Capital (Regulatory)	677,340	734,561	751,184	803,608
Allowance for Loan Losses includible in Tier 2 Capital	62,453	66,037	68,225	70,471
<b>Total Risk-Based Capital (Regulatory)</b>	<b>\$ 739,793</b>	<b>\$ 800,598</b>	<b>\$ 819,409</b>	<b>\$ 874,079</b>
Construction, Land and Land Development Loans	\$ 366,704	\$ 418,703	\$ 336,931	\$ 442,389
<b>Concentration as a % of the Bank's Risk-Based Capital</b>	<b>50%</b>	<b>52%</b>	<b>41%</b>	<b>51%</b>
Construction, Land and Land Development Loans	\$ 366,704	\$ 418,703	\$ 336,931	\$ 442,389
Investment Real Estate Loans	1,090,573	1,272,415	1,423,792	1,443,576
Total Construction and Investment RE Loans	\$ 1,457,277	\$ 1,691,118	\$ 1,760,723	\$ 1,885,965
<b>Concentration as a % of the Bank's Risk-Based Capital</b>	<b>197%</b>	<b>211%</b>	<b>215%</b>	<b>216%</b>

<sup>1</sup> Includes net unrealized gains or losses on securities available for sale, net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.

**ALLOWANCE AS A PERCENTAGE OF NON-PURCHASED LOANS (dollars in thousands):**

	3Q16	4Q16	1Q17	2Q17
Loans Held for Sale (GAAP)	\$ 1,482	\$ 2,929	\$ 1,262	\$ 4,036
Loans (GAAP)	4,973,844	5,139,645	5,274,909	5,613,144
Total Loans	4,975,326	5,142,574	5,276,171	5,617,180
Less: Purchased Loans	(733,715)	(665,417)	(608,724)	(762,893)
Non-Purchased Loans (non-GAAP)	\$ 4,241,611	\$ 4,477,157	\$ 4,667,447	\$ 4,854,287
Allowance for Loan Losses (GAAP)	\$ 63,456	\$ 66,037	\$ 68,225	\$ 70,471
Fair Value Adjustment (FVA) (GAAP)	37,898	34,936	30,623	29,664
Allowance plus FVA (non-GAAP)	\$ 101,354	\$ 100,973	\$ 98,848	\$ 100,135
Total Loans	\$ 4,975,326	\$ 5,142,574	\$ 5,276,171	\$ 5,617,180
Fair Value Adjustment (FVA) (GAAP)	37,898	34,936	30,623	29,664
Total Loans plus FVA (non-GAAP)	\$ 5,013,224	\$ 5,177,510	\$ 5,306,794	\$ 5,646,844
Allowance as a Percentage of Non-Purchased Loans (non-GAAP)	1.50%	1.47%	1.46%	1.45%
Allowance plus FVA as a Percentage of Total Loans plus FVA (non-GAAP)	2.02%	1.95%	1.86%	1.77%

