FIRST MERCHANTS CORP
Form 8-K
April 02, 2002

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: April 1, 2002

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

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

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

(317) 747-1500
(Registrant's telephone number, including area code)

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Item 1. Not Applicable.

Item 2. Acquisition or Disposition of Assets.

On April 1, 2002, First Merchants Corporation acquired all of the assets of Lafayette Bancorporation through the merger of Lafayette Bancorporation with and into First Merchants Corporation (the "Merger"). Lafayette Bancorporation's principal asset was the shares of common stock of its wholly-owned subsidiary, Lafayette Bank and Trust Company (the "Bank"). The Bank is an Indiana state chartered bank providing various commercial and consumer banking services to its customers located primarily in the Indiana counties of Tippecanoe, Jasper, White and Carroll, through 20 offices. At December 31, 2001, Lafayette Bancorporation had total assets of approximately $762 million and deposits of approximately $618 million. First Merchants Corporation will account for the Merger under the purchase method of accounting.

As part of the Merger, shareholders of Lafayette Bancorporation shall receive approximately 2,773,059 shares of First Merchants Corporation common stock and approximately $50,866,560 in cash in exchange for their shares of Lafayette Bancorporation common stock. The form and amount of such consideration was arrived at through arms length negotiations between First Merchants Corporation and Lafayette Bancorporation. First Merchants Corporation intends to finance the cash consideration payable in the Merger through the sale of cumulative trust preferred securities by its wholly-owned subsidiary, First Merchants Capital Trust I. First Merchants Capital Trust I will invest all of the proceeds from the sale of the cumulative trust preferred securities in junior subordinated debentures to be issued by First Merchants Corporation.

In connection with the Merger, shareholders of Lafayette Bancorporation were offered the opportunity to elect to receive either 1.11 shares of First Merchants Corporation common stock or $30 in cash in exchange for each share of Lafayette Bancorporation common stock owned by them. Pursuant to the terms of the Merger, under certain circumstances, the 1.11 exchange ratio was subject to adjustment and the cash elections made by Lafayette Bancorporation shareholders were subject to being converted into elections to receive stock. However, all elections by Lafayette Bancorporation shareholders to receive cash in exchange for their shares will be honored and the 1.11 exchange ratio will not be adjusted. Cash will be paid by First Merchants Corporation in lieu of issuing fractional shares resulting from the 1.11 exchange ratio.

For further information regarding the terms of the Merger, see the Agreement of Reorganization and Merger between First Merchants Corporation and Lafayette Bancorporation dated October 14, 2001, which is incorporated into this Form 8-K by reference and filed as an exhibit hereto.

A copy of the press release announcing consummation of the Merger is filed as an exhibit to this Form 8-K.

Items 3-6. Not Applicable.

Item 7. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

(i) Report of Independent Auditors.

(ii) Consolidated Balance Sheets as of December 31, 2001 and 2000.

(iii) Consolidated Statements of Income for the Years Ended December 31, 2001, 2000 and 1999.

(iv) Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2001, 2000 and 1999.

(v) Consolidated Statements of Cash Flows for the

Years Ended December 31, 2001, 2000 and 1999.

(vi) Notes to Consolidated Financial Statements.

(b) Pro Forma Financial Information.

(i) Unaudited Pro Forma Combined Consolidated Financial Information Including Balance Sheet as of December 31, 2001, Statement of Income for the Year Ended December 31, 2001 and the notes thereto.

(c) Exhibits.

(2.1) Agreement of Reorganization and Merger by and between First Merchants Corporation and Lafayette Bancorporation dated October 14, 2001 (the "Merger Agreement"). (Incorporated by reference to Exhibit 2 to First Merchants Corporation's Current Report on Form 8-K filed October 15, 2001.)

(2.2) Undertaking by First Merchants Corporation to furnish supplementally the Disclosure Letters referenced in the Merger Agreement.

(23) Consent of Crowe, Chizek and Company LLP

(99) Press release dated April 1, 2002

Items 8 and 9. Not Applicable.

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.

DATE: April 1, 2002.

FIRST MERCHANTS CORPORATION

By: /s/ Larry R. Helms

Larry R. Helms,
Senior Vice President and
General Counsel

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
Lafayette Bancorporation
Lafayette, Indiana

We have audited the accompanying consolidated balance sheets of Lafayette Bancorporation as of December 31, 2001 and 2000 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lafayette Bancorporation as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Crowe, Chizek and Company LLP

Indianapolis, Indiana
January 24, 2002

LAFAYETTE BANCORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2001 and 2000
(Dollar amounts in thousands)

	2001	2000
ASSETS		
Cash and due from banks	$ 32,028	$ 26,452
Interest-bearing deposits in other financial institutions	10,237	21,820
Federal funds sold	9,200	25,200
Total cash and cash equivalents	51,465	73,472
Securities available-for-sale	94,164	78,857
Securities held-to-maturity (fair value $4,047 and $4,580)	3,918	4,484
Loans held for sale	17,262	5,949
Loans	555,864	537,725
Less: Allowance for loan losses	(5,413)	(5,071

Net loans	550,451	532,654
FHLB stock, at cost	2,344	2,200
Premises, furniture and equipment, net	11,007	11,353
Intangible assets	12,291	13,007
Accrued interest receivable and other assets	19,416	19,171
Total assets	$ 762,318	$ 741,147
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Noninterest-bearing deposits	$ 80,012	$ 70,866
Interest-bearing demand and savings deposits	268,698	230,984
Interest-bearing time deposits	269,862	276,447
Total deposits	618,572	578,297
Short-term borrowings	32,073	55,572
FHLB advances	34,982	35,737
Note payable	10,150	11,550
Accrued interest payable and other liabilities	7,421	7,190
Total liabilities	703,198	688,346
Shareholders' equity		
Common stock, no par value: 20,000,000 shares authorized; 3,961,589 and 3,953,616 shares issued and outstanding	3,962	3,954
Additional paid-in capital	38,119	38,024
Retained earnings	16,639	11,086
Accumulated other comprehensive income (loss)	400	(263
Total shareholders' equity	59,120	52,801
Total liabilities and shareholders' equity	$ 762,318	$ 741,147

See accompanying notes.

2.

LAFAYETTE BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2001, 2000 and 1999
(Dollar amounts in thousands, except per share data)

	2001	2000
Interest income		

Loans, including related fees	$ 46,853	$ 46,620	$
Taxable securities	3,299	3,318	
Tax exempt securities	1,731	1,664	
Other	1,781	784	
Total interest income	53,664	52,386	
Interest expense			
Deposits	22,650	23,016	
Short-term borrowings	1,506	1,773	
Other borrowings	2,747	2,616	
Total interest expense	26,903	27,405	
Net interest income	26,761	24,981	
Provision for loan losses	1,225	1,200	
Net interest income after provision for loan losses	25,536	23,781	
Noninterest income			
Fiduciary activities	1,264	1,187	
Service charges on deposit accounts	2,352	1,880	
Net realized gain/(loss) on securities	-	(12)	
Net gain on loan sales	1,858	659	
Other service charges and fees	1,080	1,042	
Investment product commissions	398	758	
Other	502	311	
Total noninterest income	7,454	5,825	
Noninterest expense			
Salaries and employee benefits	12,908	10,681	
Occupancy, net	1,293	1,247	
Equipment	1,914	1,731	
Intangible amortization	716	740	
Other	5,343	4,777	
Total noninterest expenses	22,174	19,176	
Income before income taxes	10,816	10,430	
Income taxes	3,401	3,514	
Net income	$ 7,415	$ 6,916	$
Basic earnings per share	$ 1.87	$ 1.75	$
Diluted earnings per share	$ 1.84	$ 1.74	$

See accompanying notes.

3.

LAFAYETTE BANCORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2001, 2000, and 1999
(Dollar amounts in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasu Stoc
Balance, January 1, 1999	$ 2,394	$ 32,620	$ 7,747	$ (42)	$ (1
Comprehensive income					
Net income			6,351		
Change in net unrealized gain/ (loss) on securities available-for-sale				(1,914)	
Total comprehensive income					
Issue 11,884 shares under stock option plan	12	266			
3-2 stock split, 1,200,738 shares	1,201		(1,201)		
Cash dividends ($.39 per share)			(1,540)		
Purchase 105 treasury shares					
Retire 20,517 treasury shares	(21)		(88)		1
Balance, December 31, 1999	3,586	32,886	11,269	(1,956)	
Comprehensive income					
Net income			6,916		
Change in net unrealized gain/ (loss) on securities available-for-sale				1,693	
Total comprehensive income					
Issue 8,448 shares under stock option plan	9	108			
10% Stock dividend 359,043 shares	359	5,030	(5,393)		
Cash dividends ($.43 per share)			(1,706)		
Balance, December 31, 2000	3,954	38,024	11,086	(263)	
Comprehensive income					

Net income			7,415		
Change in net unrealized gain/ (loss) on securities available-for-sale				663	
Total comprehensive income					
Issue 7,973 shares under stock option plan	8	95			
Cash dividends ($.47 per share)			(1,862)		
Balance, December 31, 2001	$ 3,962	$ 38,119	$ 16,639	$ 400	$

See accompanying notes.

4.

LAFAYETTE BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2001, 2000, and 1999
(Dollar amounts in thousands)

	2001	2000	1999
Cash flows from operating activities			
Net income	$ 7,415	$ 6,916	$ 6,351
Adjustments to reconcile net income to net cash from operating activities			
Depreciation	1,475	1,339	948
Net amortization	773	722	726
Provision for loan losses	1,225	1,200	1,060
Net realized (gain)/loss on securities	--	12	144
Net realized (gain) loss on sale of other real estate	9	(5)	--
Change in assets and liabilities			
Loans originated for sale	(138,582)	(56,201)	(67,547)
Loans sold	127,269	53,426	74,459
Accrued interest receivable and other assets	(750)	(4,410)	(1,947)
Accrued interest payable and other liabilities	231	323	1,314
Net cash from operating activities	(935)	3,322	15,508
Cash flows from investing activities			
Change in interest-bearing balances with other financial institutions	--	--	671
Purchase of securities available-for-sale	(84,767)	(86,815)	(172,049)

Proceeds from sales of securities available-for-sale	56,077	82,375	56,027
Proceeds from maturities of securities available-for-sale	14,432	8,119	109,826
Purchase of securities held-to-maturity	--	--	(2,000)
Proceeds from maturities of securities held-to-maturity	564	229	2,160
Loans made to customers, net of payments collected	(19,297)	(49,452)	(78,085)
Purchase of Federal Home Loan Bank stock	(144)	(303)	(358)
Property and equipment expenditures	(1,129)	(2,109)	(3,578)
Proceeds from sales of other real estate	330	470	--
Net cash from investing activities	(33,934)	(47,486)	(87,386)

(continued)

LAFAYETTE BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years ended December 31, 2001, 2000, and 1999
(Dollar amounts in thousands)

	2001	2000	1999
Cash flows from financing activities			
Net change in deposit accounts	$ 40,275	$ 56,050	$ 9,686
Cash received in branch acquisition for liabilities assumed, net of assets acquired	--	--	45,266
Net change in short-term borrowings	(23,499)	28,299	10,871
Proceeds from other borrowings	--	22,000	30,000
Payments on other borrowings	(2,155)	(17,690)	(10,877)
Common stock issued	103	117	278
Dividends paid	(1,862)	(1,706)	(1,540)
Purchase of fractional shares from stock dividend	--	(4)	--
Purchase of treasury stock	--	--	(4)
Net cash from financing activities	12,862	87,066	83,680
Net change in cash and cash equivalents	(22,007)	42,902	11,802
Cash and cash equivalents at beginning of year	73,472	30,570	18,768
Cash and cash equivalents at end of year	$ 51,465	$ 73,472	$ 30,570
Supplemental disclosures of cash flow information			
Cash paid during the period for			
Interest	$ 27,495	$ 26,882	$ 20,765
Income taxes	4,054	3,405	3,168
Non-cash investing and financing activities			
Loans transferred to other real estate	$ 298	$ 50	$ 465

See also Note 18 regarding 1999 branch acquisition

See accompanying notes.

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999
(Dollar amounts in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include the accounts of Lafayette Bancorporation (Corporation) and its wholly owned subsidiary, Lafayette Bank and Trust Company (Bank), after elimination of significant intercompany transactions and accounts.

The Corporation provides financial services to its customers, primarily commercial and retail banking and trust services, with operations conducted through its main office and 17 branches located in Tippecanoe, White, Jasper, and Carroll Counties in Indiana. The majority of the Corporation's revenue is derived from commercial and retail business lending activities and investments. Although the overall loan portfolio is diversified, the economy of Tippecanoe County is heavily dependent on Purdue University, one of the area's largest employers, and the economy of White and Jasper County is heavily dependent on the agricultural industry. The majority of the Bank's loans are secured by specific items of collateral including business assets, real property and consumer assets.

Use of Estimates: Management must make estimates and assumptions in preparing financial statements that affect the amounts reported and disclosed. These estimates and assumptions may change in the future and future results could differ from these estimates. Estimates that are more susceptible to change in the near term include the allowance for loan losses, the fair value of securities and other financial instruments, and the determination and carrying value of impaired loans.

Securities: Securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are reported at fair value, with unrealized gains or losses included in other comprehensive income.

Realized gains or losses are determined based on the amortized cost of the specific security sold. Interest and dividend income, adjusted by amortization of purchase premium or discount, is included in earnings.

Loans Held for Sale: The Bank sells certain fixed-rate first mortgage loans in the secondary market on a servicing-released basis. Mortgage loans held for sale are carried at the lower of cost or estimated market value determined on an aggregate basis.

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999
(Dollar amounts in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Interest on real estate, commercial and most installment loans is accrued over the term of the loans based on the principal outstanding. The recognition of interest income is discontinued when, in management's judgment, the interest will not be collectible in the normal course of business. Loans are evaluated for non-accrual when the loan is impaired or payments are past due over 90 days. Interest received is recognized on the cash basis or cost recovery method until qualifying for return to accrual status. Accrual is resumed when all contractually due payments are brought current and future payments are reasonably assured. The Bank defers loan fees, net of certain direct loan origination costs. The net amount deferred is reported in the balance sheet as part of loans and is recognized into interest income over the term of the loan using a method which approximates a level-yield.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and loan recoveries and decreased by loan charge-offs. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

Loan impairment is recognized if a loan's full principal or interest payments are not expected to be received. Loans considered to be impaired are reduced to the present value of expected future cash flows using the loans' existing rate or to the fair value of collateral if repayment is expected solely from the collateral, by allocating a portion of the allowance for loan losses to such loans. Smaller-balance homogeneous loans are evaluated for impairment in total. Such loans include residential real estate loans secured by one to four family residences and installment loans to individuals for household, family and other personal expenditures. Commercial and agricultural loans are evaluated individually for impairment.

Premises, Furniture and Equipment: Premises, furniture and equipment are stated at cost less accumulated depreciation. Depreciation expense is recognized over the estimated useful lives of the assets, principally on the straight-line method.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Holding costs after acquisition are expensed.

Long-term Assets: These assets are reviewed for impairment when events indicate their carrying amounts may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at discounted amounts.

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999
(Dollar amounts in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Repurchase Agreements: Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance. The Bank retains possession of and control over pledged securities.

Intangibles: Intangibles include goodwill and core deposit intangibles. Goodwill is amortized on the straight-line method over 15 to 25 years, and core deposit is amortized on an accelerated method over 10 years. Intangibles are assessed for impairment based on estimated undiscounted cash flows, and written down if necessary.

Stock Compensation: Expense for employee compensation under stock option plans is based on Opinion 25, with expense reported only if options are granted below market price at grant date. Pro forma disclosures of net income and earnings per share are provided as if the fair value method of Financial Accounting Standard No. 123 were used for stock-based compensation.

Income Taxes: Deferred tax liabilities and assets are determined at each balance sheet date. They are measured by applying enacted tax laws to future taxable income or expense resulting from differences in the financial statement and tax basis of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Earnings Per Share: Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements.

Statement of Cash Flows: Cash and cash equivalents are defined to include cash on hand, amounts due from banks, and federal funds sold. The Corporation reports net cash flows for customer loan transactions, deposit transactions, and short-term borrowings.

Financial Instruments: Financial instruments include credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay.

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999
(Dollar amounts in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed separately. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are now such matters that will have a material effect on the financial statements.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Industry Segments: Internal financial information is primarily reported and aggregated in three lines of business, banking, mortgage banking and trust services.

New Accounting Pronouncements: Beginning January 1, 2001, a new accounting standard requires all derivatives to be recorded at fair value. Unless designated as hedges, changes in these fair values will be recorded in the income statement. Fair value changes involving hedges will generally be recorded by offsetting gains and losses on the hedge and on the hedged item, even if the fair value of the hedged item is not otherwise recorded. Adoption of this standard on January 1, 2001 did not have a material effect on the financial statements.

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999
(Dollar amounts in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A new accounting standard requires all business combinations to be recorded using the purchase method of accounting for any transaction initiated after June

30, 2001. Under the purchase method, all identifiable tangible and intangible assets and liabilities of the acquired company must be recorded at fair value at date of acquisition, and the excess cost over fair value of net assets acquired is recorded as goodwill. Identifiable intangible assets must be separated from goodwill. Identifiable intangible assets with finite useful lives will continue to amortize under the new standard, whereas goodwill will cease being amortized starting in 2002. Annual impairment testing will be required for goodwill with impairment being recorded if the carrying amount of goodwill exceeds its implied fair value. Amounts previously recorded as goodwill from depository institution branch acquisitions are not presently considered to be goodwill under the new standard and these amounts will continue to be amortized. Management is currently evaluating the impact of this new standard, but management expects to continue amortizing all of the Corporation's intangible assets.

Reclassifications: Some items in the prior financial statements were reclassified to conform to the current presentation.

NOTE 2 - SECURITIES

The fair value of securities available for sale and the related gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Fair Value	Gross Unrealized Gains
Securities Available-for-Sale		
2001		
U.S. Government and its agencies	$ 2,023	$ 23
Obligations of states and political subdivisions	36,315	433
Corporate obligations	10,426	331
Mortgage-backed and other asset-backed securities	42,856	391
Other securities	2,544	--
	$ 94,164	$ 1,178

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999
(Dollar amounts in thousands, except per share data)

NOTE 2 - SECURITIES (Continued)

	Fair Value	Gross Unrealized Gains
2000		
U.S. Government and its agencies	$ 4,193	$ 10
Obligations of states and political subdivisions	31,012	418
Corporate obligations	4,001	48
Mortgage-backed and other asset-backed securities	37,105	58
Other securities	2,546	515
	$ 78,857	$ 1,049

The carrying amount, unrecognized gains and losses and fair value of securities held to maturity were as follows:

Securities Held to Maturity	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses
2001			
Obligations of states and political subdivisions	$ 3,918	$ 129	$ --
2000			
Obligations of states and political subdivisions	$ 4,484	$ 98	$ (2)

Gross gains of $0, $2, and $35 and gross losses of $0, $14, and $179 were realized on sales of securities available-for-sale in 2001, 2000, and 1999.

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999
(Dollar amounts in thousands, except per share data)

NOTE 2 - SECURITIES (Continued)

(Dollar amounts in thousands, except per share data)

The fair value of securities and carrying amount, if different, at December 31, 2001 by contractual maturity are shown below. Securities not due at a single maturity date are shown separately.

	Held-to-Maturity Carrying Amount	Held-to-Maturity Fair Value
Due in 1 year or less	$ --	$ --
Due after 1 year through 5 years	1,924	2,015
Due after five years through 10 years	927	964
Due after 10 years	1,067	1,068
Subtotal	3,918	4,047
Mortgage-backed and other asset-backed securities	--	--
Total	$ 3,918	$ 4,047

Securities with a carrying value of $34,702 and $57,405 at December 31, 2001 and 2000 were pledged to secure public deposits and repurchase agreements. See Note 8 regarding additional securities pledges.

At December 31, 2001 and 2000, mortgage-backed securities include collateralized mortgage obligations (CMO's) and real estate mortgage investment conduits (REMIC's) with an amortized cost of $27,997 and $17,295 and fair value of $28,123 and $16,753, all of which are issued by U.S. Government agencies. At December 31, 2001 and 2000, approximately $7,538 and $8,481 are variable rate, with the remainder fixed rate.

NOTE 3 - LOANS

Loans are comprised of the following as of December 31:

	2001	2000
Commercial and agricultural loans	$232,997	$215,087
Real estate construction	62,305	54,768
Residential real estate loans	211,014	212,190
Installment loans to individuals	44,559	50,696
Commercial paper	4,989	4,984

Total	$555,864	$537,725

Non-performing loans consist of the following at December 31:

	2001	2000
Loans past due 90 days or more	$ 768	$1,052
Non-accrual loans	3,440	2,718
Restructured loans	25	55
Total	$4,233	$3,825

Information regarding impaired loans is as follows:

	2001	2000
Year-end impaired loans		
With no allowance for loan losses allocated	$ 693	$ 25
With allowance for loan losses allocated	7,535	5,151
Amount of the allowance allocated	2,077	1,658

	2001	2000	1999
Average balance of impaired loans	$5,608	$2,885	$697
Interest income recognized during impairment	312	55	3
Cash-basis interest income recognized	220	41	3

The Bank had $237 and $34 of loans on non-accrual at December 31, 2001 or 2000 that management did not deem to be impaired.

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999
(Dollar amounts in thousands, except per share data)

NOTE 3 - LOANS (Continued)

Certain directors and officers of the Corporation and Bank were customers of the Bank in the ordinary course of business. Loan activity with these related parties is as follows:

Balance as of January 1, 2001	$ 910
Change in persons included	--
New loans	791
Loan payments	(474)

(Dollar amounts in thousands, except per share data)

Balance as of December 31, 2001	$ 1,227

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

The activity in the allowance for loan losses is as follows:

	2001	2000	1999
Balance, January 1	$ 5,071	$ 4,618	$ 4,241
Provision charged to operations	1,225	1,200	1,060
Loans charged-off	(982)	(877)	(829)
Recoveries on loans previously charged-off	99	130	146
Balance, December 31	$ 5,413	$ 5,071	$ 4,618

NOTE 5 - PREMISES, FURNITURE AND EQUIPMENT

A summary of premises, furniture and equipment by major category follows:

	2001	2000
Land	$ 905	$ 870
Buildings and improvements	9,037	8,782
Leasehold improvements	1,749	1,786
Furniture and equipment	8,438	9,781
Total	20,129	21,219
Accumulated depreciation	(9,122)	(9,866)
Premises, furniture and equipment, net	$ 11,007	$ 11,353

(continued)

NOTE 6 - INTEREST-BEARING TIME DEPOSITS

Time deposits of $100 or greater totaled $53,727 and $53,514 at December 31, 2001 and 2000.

At December 31, 2001, the scheduled maturities of time deposits are as follows:

2002	$ 193,826
2003	57,608

(Dollar amounts in thousands, except per share data)

2004	11,294
2005	2,813
2006	4,052
Thereafter	269
Total	$ 269,862

NOTE 7 - SHORT-TERM BORROWINGS

Short-term borrowings are comprised of the following at year-end:

	2001	2000
Balance of repurchase agreements outstanding	$31,505	$54,275
Balance of treasury tax and loan open-end note	568	1,297
Total short-term borrowings	$32,073	$55,572

At December 31, 2001 and 2000, the Corporation had $667 and $1,054 in related party repurchase agreements.

(continued)

NOTE 8 - FHLB ADVANCES AND NOTE PAYABLE

FHLB advances and note payable outstanding at December 31 consist of the following:

	2001
Federal Home Loan Bank advances; annual principal payments; various maturities with final maturity May 15, 2008; interest payable monthly at various fixed interest rates from 5.45% - 6.82%; secured by a blanket pledge of the Bank's obligations of the U.S. Government and U.S. Government agencies and one-to-four family residential mortgage loans.	$ 7,982
Federal Home Loan Bank advances; principal callable one year from date of advance and quarterly thereafter, otherwise, principal payments due at maturity, with final maturities in 2002 and 2010; interest payable monthly at various fixed interest rates from 4.98%-6.20%; secured by a blanket pledge of the Bank's obligations of the U.S. Government and U.S. Government agencies and one-to-four family residential mortgage loans.	27,000

Total FHLB advances	34,982
Note payable to Northern Trust Company; quarterly principal payments of $350 required; matures March 31, 2006; interest payable monthly at a variable rate, which is currently 3.60% based on the Federal Funds rate plus an applicable margin based on the Corporation's existing capital ratios; obligation is unsecured but subject to various covenants, including defined minimum return on average assets, tangible net worth, capital ratios, loan loss allowance to non-performing loans ratio, and maximum non-performing assets. At year-end, the Corporation was in compliance with all covenants.	10,150
Total	$ 45,132

Annual principal payments required are as follows:

2002	$ 7,399
2003	4,426
2004	1,479
2005	1,485
2006	2,800
Thereafter	27,543
Total FHLB advances and note payable	$ 45,132

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 - EMPLOYEE BENEFIT PLANS

The following sets forth the defined benefit pension plan's funded status and amount recognized in the balance sheet at December 31 (amounts computed as of September 30, 2001 and 2000):

	2001	2000
Change in benefit obligation:		
Beginning benefit obligation	$ 13,314	$ 12,626
Service cost	813	783
Interest cost	979	928
Actuarial (gain) loss	1,128	(503)
Benefits paid	(588)	(520)
Ending benefit obligation	15,646	13,314

(Dollar amounts in thousands, except per share data)

Change in plan assets, at fair value:		
Beginning plan assets	16,341	16,603
Actual return	(246)	258
Employer contribution	--	--
Benefits paid	(588)	(520)
Ending plan assets	15,507	16,341
Funded status	(139)	3,027
Unrecognized net actuarial (gain) loss	2,480	(382)
Unrecognized prior service cost	17	19
Unrecognized transition asset	(480)	(631)
Prepaid benefit cost	$ 1,878	$ 2,033

The components of pension expense and related actuarial assumptions were as follows.

	2001	2000	1999
Service cost	$ 813	$ 783	$ 647
Interest cost	979	928	812
Expected return on plan assets	(1,488)	(1,513)	(1,386)
Amortization of prior service cost	2	2	2
Amortization of transition asset	(151)	(151)	(151)
	$ 155	$ 49	$ (76)
Discount rate on benefit obligation	7.00%	7.50%	7.50%
Long-term expected rate of return on plan assets	9.25	9.25	9.25
Rate of compensation increase	4.00	4.00	4.00

At December 31, 2001 and 2000, the plan's assets include Lafayette Bancorporation common stock of $1,216 and $582. At December 31, 2001 and 2000 the plan's assets also included Lafayette Bank and Trust Company certificates of deposit of $538 and $436.

(continued)

NOTE 9 - EMPLOYEE BENEFIT PLANS (Continued)

The Bank maintains a retirement savings plan covering substantially all employees. The plan requires employees to complete one year of service and be 21 years of age before entering the plan. The plan allows for Bank contributions at an annually determined matching percentage of the first 4% of employee salary contributions, as well as an annual discretionary contribution. Total 401(k) contributions charged to expense were $176, $161, and $140 for 2001, 2000 and 1999.

(Dollar amounts in thousands, except per share data)

The Bank maintains a deferred compensation plan for the benefit of certain directors. Under the plan, the Bank agrees, in return for the directors deferring the receipt of a portion of their current compensation, to pay a retirement benefit computed as the amount of the compensation deferred plus accrued interest at a variable rate. Accrued benefits payable totaled $1,596 and $1,289 at December 31, 2001 and 2000. Deferred compensation expense was $131 for 2001, and $106 for 2000. In conjunction with the plan, the Bank has purchased life insurance on the directors. The cash surrender value of that insurance is carried as an other asset on the consolidated balance sheet, and was approximately $7,171 and $6,834 at December 31, 2001 and 2000.

NOTE 10 - POSTRETIREMENT BENEFITS

The Bank sponsors a postretirement benefit plan which provides defined medical benefits. Retirees contribute an amount equal to their individual applicable premium to provide the coverage, less 30%, which is paid monthly by the Bank. Retirees must pay 100% of medical premiums for all dependent coverage. The plan is not funded and has no assets.

(continued)

NOTE 10 - POSTRETIREMENT BENEFITS (Continued)

The following sets forth the plan's benefit obligation and amounts recognized in the balance sheet at December 31:

	2001	2000
Change in postretirement benefit obligation:		
Beginning benefit obligation	$ 454	$ 550
Unrecognized net actuarial (gain) loss	--	(159)
Service cost	31	35
Interest cost	36	38
Benefits paid, net	(23)	(10)
Ending benefit obligation	498	454
Unrecognized net gain	277	302
Accrued benefit obligation	$ 775	$ 756

(Dollar amounts in thousands, except per share data)

Components of net periodic postretirement benefit cost as of December 31:

	2001	2000	1999
Service cost	$ 31	$ 35	$ 31
Interest cost	36	38	34
Amortization of unrecognized gain	(25)	(10)	(11)
Benefit cost	$ 42	$ 63	$ 54

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits assumed was 7 % for 2001, 8% for 2000, and 11.5% for 1999, with the rate assumed to decrease to 6% over the next two years in the 2001 and 2000 calculation, and to 5.5% over the next year in the 1999 calculation. The health care cost trend is a significant assumption. However, either an increase or decrease in the assumed health care cost trend rates by 1% in each year would affect the accumulated postretirement benefit obligation as of December 31, 2001 and the aggregate service and interest cost components of net periodic postretirement benefit cost for the year then ended by amounts not considered to be material.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 8% for 2001 and 2000, and 7% for 1999.

(continued)

NOTE 11 - STOCK APPRECIATION RIGHTS AND STOCK OPTION PLAN

The Corporation maintains an Officers' Stock Appreciation Rights Plan for granting rights to certain officers, under which all available rights have been granted. Upon exercise of a stock appreciation right, the holder may receive cash equal to the excess of the fair market value of common stock at the date of exercise over the option price. Stock appreciation rights are vested at 20% per year and must be exercised within 10 years of grant. The plan expires May 2002. Granted rights outstanding were fully vested and consisted of 38,105 at an option price of $3.66 for 2001 and 2000. In 2001, no rights were exercised. In 2000, 16,500 rights were exercised when the fair market value was $23.18 per share. The aforementioned amounts of rights and prices are adjusted for stock dividends and splits. Compensation expense (benefit) charged to operations in 2001, 2000 and 1999 was $539, ($376), and $14 and is based on an increase (decrease) in market value. The liability at December 31, 2001, 2000 and 1999 was $895, $356 and $1,053.

The Corporation has established two nonqualified stock option plans to provide stock options to directors and key members of management. One plan was adopted in 1995 ("1995 Plan") and the other in 1998 ("1998 Plan"). There are no shares of common stock remaining available for grant under the 1995 Plan. The total number of shares of common stock remaining available for grant to directors is 17 and management is 19,928 under the 1998 Plan. All shares for both plans were available for grant at a price equal to the market price of the stock at the date of grant.

Under the 1995 Plan, options granted to directors at the effective date are exercisable any time after the date of grant, and options granted to directors elected after the effective date are exercisable after two years. Under the 1998 Plan, options granted to directors are exercisable after two years. Options granted to management under both plans become 20% exercisable after one year and 20% each subsequent year. Both plans are effective for five years and options must be exercised within ten years from the date of grant.

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999
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NOTE 11 - STOCK APPRECIATION RIGHTS AND STOCK OPTION PLAN (Continued)

A summary of the Corporation's stock option activity, and related information for the years ended December 31, follows (adjusted for stock dividends and splits):

	Options	Weighted Average Exercise Price	Weighted Average Fair Value
Outstanding, beginning of 1999	227,427	$ 12.89	
Granted	14,834	24.70	$ 4.76
Exercised	(17,166)	11.26	
Forfeited	(9,758)	14.72	
Outstanding, end of 1999	215,337	13.75	
Granted	20,075	15.23	2.19
Exercised	(9,144)	11.37	
Forfeited	(8,441)	15.69	
Outstanding, end of 2000	217,827	13.91	
Granted	24,650	15.00	3.98
Exercised	(7,973)	11.53	
Forfeited	(2,352)	15.52	
Outstanding, end of 2001	232,152	14.09	

Options outstanding at December 31, 2001 include 184,529 with exercise prices ranging from $10.39 to $15.23 (weighted average exercise price of $12.20) and a weighted average remaining life of 5.87 years; and 47,623 with exercise prices ranging from $17.63 to $24.70 (weighted average exercise price of $21.41) and a weighted average remaining life of 7.27 years. Options exercisable at December 31, 2001 include 136,677 with exercise prices ranging from $10.39 to $15.23 (weighted average exercise price of $11.28); and 37,406 with exercise prices ranging from $17.63 to $24.70 (weighted average exercise price of $20.86).

Pro forma information regarding net income and earnings per share has been determined as if the Corporation had accounted for its stock options under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for the years 2001, 2000, and 1999: risk-free interest rates of 4.9%, 6.7%, and 5.4% dividend yields of 2% for 2001, 3% for 2000 and 2% for 1999; volatility factors of the expected market price of the Corporation's common stock of .37, .24, and .13; and a weighted average expected life of the options of five years for management options and two years for directors' options.

(continued)

NOTE 11 - STOCK APPRECIATION RIGHTS AND STOCK OPTION PLAN (Continued)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Corporation's pro forma information follows (in thousands except for earnings per share information):

	2001	2000	1999
Pro forma net income	$ 7,329	$ 6,859	$ 6,270
Pro forma earnings per share			
Basic	$ 1.85	$ 1.74	$ 1.59
Diluted	$ 1.82	$ 1.72	$ 1.55

In future years, the pro forma effect of not applying this standard may increase if additional options are granted.

NOTE 12 - INCOME TAXES

Income taxes consist of the following:

	2001	2000	1999
Currently payable	$ 4,172	$3,498	$ 3,004
Deferred income taxes (benefit)	(782)	3	(50)
Non-qualified stock option benefit allocated to additional paid-in capital	11	13	73
Total	$ 3,401	$3,514	$ 3,027

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The following is a reconciliation of statutory federal income taxes and the amount computed by applying the statutory rate of 34% to income before income taxes:

	2001	2000	1999
Statutory rate applied to income before income taxes	$ 3,677	$ 3,546	$ 3,188
Add/(deduct)			
Tax exempt interest income	(533)	(486)	(430)
State tax expense (net of federal benefit)	395	474	417
Other	(138)	(20)	(148)
Total	$ 3,401	$ 3,514	$ 3,027

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 - INCOME TAXES (Continued)

The net deferred tax asset reflected in the consolidated balance sheet is comprised of the following components as of December 31:

	2001	2000
Deferred tax assets		
Allowance for loan losses	$ 1,718	$ 1,380
Accrued stock appreciation rights	350	139
Accrued post-retirement benefit obligation	462	426
Deferred compensation	589	470
Deferred loan fees	99	57
Net unrealized loss on securities available-for-sale	--	173
Total tax assets	3,218	2,645
Deferred tax liabilities		
Depreciation	(339)	(341)
Net pension benefit	(734)	(795)
Intangible asset amortization	(282)	(186)
Net unrealized gain on securities available-for-sale	(262)	--
Other	(179)	(248)
Total deferred tax liabilities	(1,796)	(1,570)
Valuation allowance	--	--

Net deferred tax asset	$ 1,422	$ 1,075

NOTE 13 - PER SHARE DATA

The following table illustrates the computation of basic and diluted earnings per share. Weighted average shares outstanding have been restated for all periods for stock splits and dividends.

	2001	2000	
Basic earnings per share			
Net income	$ 7,415	$ 6,916	$
Weighted average shares outstanding	3,959,582	3,950,297	
Basic earnings per share	$ 1.87	$ 1.75	$
Diluted earnings per share			
Net income	$ 7,415	$ 6,916	$
Weighted average shares outstanding	3,959,582	3,950,297	
Dilutive effect of stock options	61,213	35,224	
Diluted average shares outstanding	4,020,795	3,985,521	
Diluted earnings per share	$ 1.84	$ 1.74	$

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 - CAPITAL REQUIREMENTS

The Corporation and Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined).

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, the institution may be required to limit capital distributions, limit asset growth and expansion, and prepare capital restoration plans.

On March 12, 1999 the Corporation's wholly-owned subsidiary bank acquired three branches in Jasper County, Indiana. As a result of this transaction consolidated and bank-only capital levels were reduced. The Corporation borrowed $14,000 and contributed $13,000 to the Bank in order for the bank to maintain its well-capitalized status. As of December 31, 2001, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. The Corporation was categorized as undercapitalized as of December 31, 1999, as the total capital ratio was slightly below the minimum required level for capital adequacy purposes. The Corporation returned to adequately capitalized status as of March 31, 2000 and has maintained that status through December 31, 2001. Although the Corporation's capital was slightly below the minimum at December 31, 1999, no corrective regulatory action was initiated by the banking regulatory authorities and management anticipates maintaining its adequately capitalized status in the foreseeable future.

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Dollar amounts in thousands, except per share data)

NOTE 14 - CAPITAL REQUIREMENTS (Continued)

The actual capital amounts and ratios are presented in the following table (in millions) for the Corporation and the Bank.

	Actual		Minimum Required For Capital Adequacy Purposes		Min Be W Under Act
	Amount	Ratio	Amount	Ratio	Amo
2001					
Total capital to risk weighted assets					
Consolidated	$ 51.8	9.28%	$ 44.7	8.00%	$
Lafayette Bank and Trust	61.3	10.98	44.7	8.00	
Tier 1 capital to risk weighted assets					
Consolidated	46.4	8.31	22.3	4.00	

Lafayette Bank and Trust	55.9	10.01	22.3	4.00	
Tier 1 capital to average assets					
Consolidated	46.4	6.24	29.7	4.00	
Lafayette Bank and Trust	55.9	7.51	29.8	4.00	
2000					
Total capital to risk weighted assets					
Consolidated	$ 45.1	8.33%	$ 43.3	8.00%	$
Lafayette Bank and Trust	55.5	10.19	43.6	8.00	
Tier 1 capital to risk weighted assets					
Consolidated	40.0	7.40	21.7	4.00	
Lafayette Bank and Trust	50.5	9.26	21.8	4.00	
Tier 1 capital to average assets					
Consolidated	40.0	5.79	27.7	4.00	
Lafayette Bank and Trust	50.5	7.29	27.7	4.00	

The Bank is also subject to state regulations restricting the amount of dividends payable to the Corporation. At December 31, 2001, the Bank had $8,882 of retained earnings available for dividends under these regulations.

(continued)

LAFAYETTE BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES

The Bank leases branch facilities under operating leases expiring in various years through 2007. Expense for leased premises was $306, $281, and $244 for 2001, 2000 and 1999.

Future minimum lease payments are as follows:

2002	$ 290
2003	267
2004	222
2005	162
2006	75
Thereafter	19
Total	$ 1,035

In the ordinary course of business, the Bank has loans, commitments and contingent liabilities, such as guarantees and commitments to extend credit, which are not reflected in the consolidated balance sheet. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policy to make such commitments as it uses for on-balance sheet items.

(Dollar amounts in thousands, except per share data)

At December 31, off-balance sheet financial instruments whose contract amount represents credit risk are summarized as follows:

	2001	2000
Unused lines of credit	$84,611	$64,987
Commitments to make loans	6,180	7,229
Standby letters of credit	3,536	1,585
Commercial letters of credit	--	--

Since many commitments to make loans expire without being used, the amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower, and may include accounts receivable, inventory, property, land and other items. These commitments are generally variable rate or carry a term of one year or less.

The cash balance required to be maintained on hand or on deposit with the Federal Reserve was $10,738 and $9,639 at December 31, 2001 and 2000. These reserves do not earn interest.

(continued)

NOTE 16 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value and estimated fair values of the Corporation's financial instruments as of December 31 are as follows:

	2001		2 0
	Carrying Value	Fair Value	Carrying Value
Financial assets			
Cash and cash equivalents	$ 51,465	$ 51,465	$ 73,472
Securities available-for-sale	94,164	94,164	78,857
Securities held-to-maturity	3,918	4,047	4,484
Loans held for sale	17,262	17,435	5,949
Loans, net	550,451	551,053	532,654
FHLB stock	2,344	2,344	2,200
Accrued interest receivable	6,803	6,803	7,830

(Dollar amounts in thousands, except per share data)

Financial liabilities			
Deposits	$ (618,572)	$ (623,883)	$ (578,297)
Short-term borrowings	(32,073)	(32,073)	(55,572)
FHLB advances	(34,982)	(35,358)	(35,737)
Note payable	(10,150)	(10,150)	(11,550)
Accrued interest payable	(2,180)	(2,180)	(2,772)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value. The carrying amount is considered to estimate fair value for cash and short-term instruments, demand deposits, short-term borrowings, accrued interest, and variable rate loans, deposits and note payable that re-price frequently and fully. Securities fair values are based on quoted market prices or, if no quotes are available, on the rate and term of the security and on information about the issuer. For loans held for sale, the fair value of loans held for sale is based on quoted market prices. For commercial, real estate, consumer, and other loans, fair value is estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. FHLB stock is restricted in nature and is not actively traded on a secondary market and the carrying amount is a reasonable estimate of fair value. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. For FHLB advances, fair value is estimated using rates currently available to the Corporation for debt with similar terms and remaining maturities. The estimated fair value for off-balance sheet loan commitments approximates carrying value and are not considered significant to this presentation.

(continued)

NOTE 17 - PARENT COMPANY STATEMENTS

Presented below are condensed balance sheets, statements of income and cash flows for the parent company:

CONDENSED BALANCE SHEETS
December 31

	2001	2000
ASSETS		
Cash on deposit with subsidiary	$ 1,855	$ 1,901
Investment in bank	68,589	63,221
Other assets	387	265
	$70,831	$65,387
LIABILITIES AND SHAREHOLDERS' EQUITY		
Note payable	$10,150	$11,550

(Dollar amounts in thousands, except per share data)

Other liabilities	1,561	1,036
Shareholders' equity	59,120	52,801
	$70,831	$65,387

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years ended December 31

	2001	2000	
Operating income			
Dividends received from subsidiary bank	$ 3,525	$ 3,200	$
Interest income	40	74	
	3,565	3,274	
Operating expenses			
Interest expense	634	1,007	
Compensation expense (benefit)	539	(376)	
Other operating expenses	232	119	
	1,405	750	
Income before income taxes and equity in undistributed earnings of bank	2,160	2,524	
Income tax benefit	550	215	
Income before equity in undistributed earnings of bank	2,710	2,739	
Equity in undistributed earnings of bank	4,705	4,177	
Net income	7,415	6,916	
Other comprehensive income, net of tax	663	1,693	
Comprehensive income	$ 8,078	$ 8,609	$

(continued)

NOTE 17 - PARENT COMPANY STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
Years ended December 31

	2001	2000
Cash flows from operating activities		
Net income	$ 7,415	$ 6,916
Adjustments to reconcile net income to net cash from operating activities		
Amortization of deferred costs	6	6
Equity in undistributed earnings of bank	(4,705)	(4,177)
Other assets and other liabilities	397	(419)
Net cash from operating activities	3,113	2,326
Cash flows from financing activities		
Proceeds from note payable	--	--
Principal payments on note payable	(1,400)	(1,400)
Capital contribution to subsidiary bank	-	--
Common stock issued	103	117
Dividends paid	(1,862)	(1,706)
Purchase of fractional shares	--	(4)
Purchase of treasury shares	--	--
Net cash from financing activities	(3,159)	(2,993)
Net change in cash and cash equivalents	(46)	(667)
Cash and cash equivalents at beginning of year	1,901	2,568
Cash and cash equivalents at end of year	$ 1,855	$ 1,901

NOTE 18 - BRANCH ACQUISITION

In March 1999, the Bank purchased three branches located in DeMotte, Remington, and Rensselaer, Indiana.

The fair value of assets acquired was $71,749 (consisting primarily of goodwill and core deposit intangibles of $13,510, and commercial loans, net of a $563 purchase adjustment for credit quality), the fair value of liabilities assumed was $117,015 (consisting primarily of customer deposits), and the Bank received $45,266 of cash at settlement.

(continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 19 - OTHER COMPREHENSIVE INCOME

Other comprehensive income components and related taxes were as follows:

	2001	2000	
Unrealized holding gains (losses) on securities available-for-sale	$ 1,098	$ 2,791	$
Less: reclassification adjustments for gains and losses later recognized in income	--	12	
Net unrealized gains (losses)	1,098	2,803	
Tax effect	(435)	(1,110)	
Other comprehensive income	$ 663	$ 1,693	$

NOTE 20 - QUARTERLY FINANCIAL DATA (UNAUDITED)

	Interest Income	Net Interest Income	Net Income	Earnin Basic
2001				
First quarter	$ 13,786	$ 6,187	$ 1,678	$ .42
Second quarter	13,745	6,601	1,906	.48
Third quarter	13,373	6,835	2,019	.51
Fourth quarter	12,760	7,138	1,812	.46
2000				
First quarter	$ 12,123	$ 6,084	$ 1,798	$ .46
Second quarter	12,878	6,297	1,807	.46
Third quarter	13,427	6,226	1,634	.41
Fourth quarter	13,958	6,374	1,677	.42

Earnings per share amounts have been restated for subsequent stock dividends and splits.

(continued)

December 31, 2001, 2000 and 1999
(Dollar amounts in thousands, except per share data)

NOTE 21 - SEGMENT INFORMATION

The Corporation's operations include three primary segments: banking, mortgage banking, and trust services. Through its banking subsidiary's locations in Tippecanoe, Jasper, White and Carroll Counties, the Corporation provides traditional community banking services, such as accepting deposits and making commercial, residential and consumer loans. Mortgage banking activities include the origination of residential mortgage loans for sale on a servicing released basis to various investors. The Corporation's trust department provides both personal and corporate trust services.

The Corporation's three reportable segments are determined by the products and services offered. Loans, investments and deposits comprise the primary revenues and expenses of the banking operation, net gains on loans sold account for the revenues in the mortgage banking segment, and trust administration fees provide the primary revenues in the trust department.

The following segment financial information has been derived from the internal profitability reporting system utilized by management to monitor and manage the financial performance of the Corporation. The accounting policies of the three segments are the same as those described in the summary of significant accounting policies. The Corporation evaluates segment performance based on profit or loss before income taxes. The evaluation process for the mortgage banking and trust segments include only direct expenses, while certain indirect expenses, including goodwill, are absorbed by the banking operation. The difference between segment totals and consolidated totals are holding company amounts and income tax expense.

(continued)

NOTE 21 - SEGMENT INFORMATION (Continued)

2001	Banking	Mortgage Banking	Trust
Net interest income	$ 27,058	$ 297	$ --
Net gain on loan sales	--	1,858	--
Other revenue	4,330	2	1,264
Noncash items:			
Depreciation	1,369	58	48
Provision for loan loss	1,225	--	--

Segment profit, before taxes	10,858	998	326
Segment assets	744,396	17,402	133
2000			
Net interest income	$ 25,769	$ 146	$ --
Net gain on loan sales	--	659	--
Other revenue	3,973	6	1,187
Non-cash items:			
Depreciation	1,243	48	48
Provision for loan loss	1,200	--	-
Segment profit, before taxes	10,655	67	385
Segment assets	734,581	6,122	179
1999			
Net interest income	$ 23,310	$ 211	$ --
Net gain on loan sales	--	942	--
Other revenue	2,959	90	1,134
Noncash items:			
Depreciation	868	42	38
Provision for loan loss	1,060	--	--
Segment profit, before taxes	9,328	459	390
Segment assets	641,132	3,325	202

NOTE 22 - PENDING MERGER

On October 15, 2001, Lafayette Bancorporation signed a definitive agreement with First Merchants Corporation, located in Muncie, Indiana, to merge with and into First Merchants Corporation. Under the terms of the agreement, upon the closing of this transaction, Lafayette Bank and Trust Company will be a wholly-owned subsidiary of First Merchants Corporation. The transaction is subject to shareholder and regulatory approval and is expected to be effective in the second quarter of 2002.

(continued)

UNAUDITED PRO FORMA COMBINED
CONSOLIDATED FINANCIAL INFORMATION

The following is the unaudited pro forma combined consolidated financial information for First Merchants Corporation and for Lafayette Bancorporation giving effect to the merger of Lafayette Bancorporation with and into First Merchants Corporation and the issuance of preferred securities and other bank debt to fund the cash consideration payable in the merger. The balance sheet information presented gives effect to the merger and the related issuance of the preferred securities and bank debt as if each occurred on December 31, 2001. The income statement information presented gives effect to the merger and the related issuance of the preferred securities and bank debt as if each occurred on January 1, 2001. The following pro forma historical information does not reflect any cost savings which First Merchants Corporation may achieve subsequent to the merger.

You should read the unaudited pro forma combined consolidated financial information in conjunction with the accompanying Notes to Unaudited Pro Forma Combined Consolidated Financial Information. This unaudited pro forma combined consolidated financial information may not be indicative of the results of operations that actually would have occurred if the merger and the related issuance of the preferred securities and bank debt had occurred on the dates assumed above or of the results of operations that may be achieved in the future.

UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED BALANCE SHEET
AS OF DECEMBER 31, 2001

	First Merchants	Lafayette	Pro forma Adjustments	
		(Dollars in thousands)		
Assets:				
Cash and due from banks......................	$ 68,743	$ 32,028	$ (1,400)	(1
			(400)	(2
			3,275	(3
			(1,004)	(4
Interest-bearing deposits....................		10,237		
Federal funds sold...........................	34,285	9,200	----	
Cash and cash equivalents..................	103,028	51,465	471	
Interest-bearing time deposits...............	3,871	----	----	
Investment securities				
Available for sale.........................	231,668	94,164	----	
Held to maturity...........................	8,654	3,918	129	(5
Total investment securities..............	240,322	98,082	129	
Mortgage loans held for sale.................	307	17,262	173	(5
Loans, net of allowance......................	1,344,445	550,451	602	(5
Premises and equipment.......................	27,684	11,007	9,441	(6
Federal Reserve and FHLB stock...............	8,350	2,344	----	
Interest Receivable..........................	12,024	6,803	----	

Core deposit intangible and goodwill..........	32,177	12,291	42,537 (7
			(12,291) (8
			16,000 (9
Other assets.................................	14,827	12,613	2,133 (15
			7,538 (10
			(1,917 (14
Total assets............................	$1,787,035	$ 762,318	$ 64,816
Liabilities:			
Deposits			
Noninterest bearing.........................	$ 186,987	$ 80,012	$ ----
Interest bearing...........................	1,234,264	538,560	5,311 (5
Total deposits..........................	1,421,251	618,572	5,311
Borrowings...................................	174,404	77,205	376 (5
			6,750 (16
Trust preferred..............................			46,250 (11
Other liabilities............................	12,252	7,421	139 (17
Total liabilities......................	1,607,907	703,198	58,826
Shareholders' equity:			
Common stock...............................	1,584	3,962	(3,962)(12
			347 (13
Additional paid in capital.................	50,642	38,119	(38,119)(12
			64,763 (13
Retained earnings..........................	124,304	16,639	(16,639)(12
Accumulated comprehensive income...........	2,598	400	(400)(12
Total shareholders' equity.............	179,128	59,120	5,990
Total liabilities and shareholders' equity	$ 1,787,035	$ 762,318	$ 64,816

The accompanying notes are an integral part of the unaudited pro forma combined consolidated financial information.

UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2001

	First Merchants	Lafayette	Pro forma Adjustments
	(Dollars in thousands, except per sh		
Interest Income:			
Loans receivable..........................	$ 103,561	$ 46,853	$ (266)(18
Investment securities.....................	15,310	5,030	(29)(18
Other.....................................	1,564	1,781	----
Total interest income..................	120,435	53,664	(295)
Interest Expense:			
Deposits..................................	45,856	22,650	(5,311)(18
Securities sold under repurchase agreements	3,208	1,506	----
Federal Home Loan Bank advances & other....	7,010	2,747	(251)(18
			135 (23
Trust Preferred...........................	----	----	4,002 (22
Total interest expense.................	56,074	26,903	(1.425)
Net Interest Income:	64,361	26,761	1,130
Provision for loan losses.................	3,576	1,225	----
Net interest income after provision for loan losses:.......................................	60,785	25,536	1,130
Non-interest Income:			
Fiduciary activities......................	5,429	1,264	----
Service charges on deposit accounts........	5,729	2,352	----
Other customer fees.......................	3,166	1,080	----
Net realized losses on sales of available-for-sale securities...........	(200)	----	----
Commission income.........................	1,945	398	----
Other income..............................	2,474	2,360	----
Total other income.....................	18,543	7,454	----
Non-interest expenses:			
Salaries and employee benefits............	24,711	12,908	----
Net occupancy expenses....................	2,729	1,293	236 (19

Equipment expenses........................	4,521	1,914	----	
Goodwill and core deposit amortization.....	1,682	716	3,556	(21
			(716)	(24
Other expenses............................	11,552	5,343	----	
Total other expenses...................	45,195	22,174	3,076	
Income before income tax:......................	34,133	10,816	(1,946)	
Income tax expense........................	11,924	3,401	(788)	(20
Net income:	$ 22,209	$ 7,415	$ (1,158)	
Per Share Data:				
Basic earnings..........................	$ 1.79	$ 1.87	----	
Diluted earnings........................	1.78	1.84	----	
Average common shares-basic..............	12,399,985	3,959,582	----	
Average common shares-diluted............	12,489,329	4,020,795	----	

The accompanying notes are an integral part of the unaudited pro forma combined consolidated financial information.

Notes to Unaudited Pro Forma Combined Consolidated Financial Information
(Dollars in thousands)

Note 1 - Basis of Presentation

On April 1, 2002, First Merchants Corporation acquired all of the assets of Lafayette Bancorporation through the merger of Lafayette Bancorporation with and into First Merchants Corporation. As part of the merger, shareholders of Lafayette Bancorporation will receive approximately 2,773,059 shares of First Merchants Corporation common stock and approximately $50,866,560 in cash. The acquisition will be accounted for under the purchase method of accounting and, accordingly, the assets and liabilities of Lafayette Bancorporation have been marked to estimated fair value based upon conditions as of December 31, 2001. Since these are pro forma statements, we cannot assure that the amounts reflected in these financial statements would have been representative of the actual amounts earned had the companies been combined at the time. The actual fair value adjustments will be made based upon appraisals and evaluations that will be made as of the date the merger is completed. Thus, the actual fair value adjustment may differ significantly from those reflected in the pro forma financial statements.

Note 2 - Pro Forma Adjustments

(1) To record payment by Lafayette Bancorporation for estimated transaction costs.

(2) To record payment by First Merchants Corporation for estimated transaction costs.

(3) To record receipt of cash for stock options exercised.

(4) To record payment for stock appreciation rights.

(5) To adjust interest-earning assets and interest-bearing liabilities of Lafayette Bancorporation to estimated fair value.

(6) To record premises at estimated fair value.

(7) To record goodwill for the cost of acquisition over the estimated fair value of net assets acquired as follows:

Purchase Price:	
Common stock	$ 347
Additional paid in capital	64,763
Acquisition costs	400
Cash paid to Lafayette Bancorporation stockholders	50,867
Total purchase price paid	$ 116,377
Allocated to:	
Historical book value of Lafayette Bancorporation's assets and liabilities	$ 59,120
Record estimated transaction costs of Lafayette Bancorporation	(1,400)
Record payment of stock appreciation rights	(1,004)
Cash received for stock options exercised	3,275
Write off of Lafayette Bancorporation's historical goodwill and core deposit intangible	(12,291)
Adjusted book value of Lafayette Bancorporation	$ 47,700
Core deposit intangible	16,000
Adjustments to record assets and liabilities at fair value:	
Securities	129
Mortgage loans held for sale	173
Loans	602
Premises and equipment	9,441
Deposits	(5,311)
Borrowings	(376)
Deferred taxes	7,538
Pension assets/liability	(2,056)
Total allocation	$ 26,140
Goodwill	$ 42,537

(8) To eliminate Lafayette Bancorporation's historical goodwill and core deposit intangible.

(9) To record core deposit intangible.

(10) To record deferred taxes on the purchase accounting adjustments.

(11) To record issuance of the preferred securities by First Merchants Corporation of $46,250,000.

(12) To eliminate Lafayette Bancorporation's equity accounts.

(13) To record issuance of 2,773,059 shares of First Merchants Corporation's common stock.

(14) To eliminate Lafayette Bancorporation's pension asset.

(15) To record estimated net debt issuance costs.

(16) To record additional borrowings necessary for cash consideration to Lafayette Bancorporation's shareholders in the event the underwriters do not exercise their over-allotment option.

(17) To recognize Lafayette Bancorporation's pension liability.

(18) To record effect of amortization of purchase accounting adjustments in a manner that approximates the level yield method.

(19) To record amortization of purchase accounting adjustment related to premises and equipment.

(20) To record tax effect of purchase accounting adjustments at an effective rate of 40.525%.

(21) To record amortization of core deposit intangible.

(22) To record interest expense and amortization of debt issuance costs related to the preferred securities issued to fund the cash consideration payable in the merger at an assumed rate of 8.5%.

(23) To record interest expense on additional borrowings necessary to finance the remaining cash consideration payable to Lafayette Bancorporation's shareholders in the event the underwriters do not exercise their over-allotment option at an assumed rate of 2.0%. In the event the underwriters exercise their over-allotment option, this interest expense on the additional borrowing would not be incurred and the interest expense recorded in footnote 22 would be increased by $574,000, at an assumed rate of 8.5%.

(24) To eliminate Lafayette Bancorporation's goodwill and core deposit intangible amortization expense.