

## First Merchants Corporation (NASDAQ: FRME; Muncie, IN) has agreed to acquire The Arlington Bank (Private; Upper Arlington, OH)

### Deal Value: Approximately \$75.8 Million

Sandler O'Neill acted as exclusive financial advisor to First Merchants Corporation in this transaction. This transaction represents Sandler O'Neill's 107<sup>th</sup> bank or thrift transaction nationwide since January 1, 2015 representing \$32.4 billion in aggregate transaction value. Sandler O'Neill has served as a financial advisor on more bank and thrift transactions and for a greater aggregate deal value than any other investment bank during that time period.<sup>1</sup>

Since January 1, 2015, Sandler O'Neill has advised on 19 bank or thrift transactions in the Midwest Region for an aggregate transaction value of \$10.1 billion, more than any other investment bank during that time period.<sup>1</sup>

First Merchants Corporation and The Arlington Bank announced they have executed a definitive merger agreement whereby The Arlington Bank will merge with and into First Merchants Bank.

Founded in 1998, and based in Upper Arlington, Ohio, The Arlington Bank operates three banking center locations in the Columbus, Ohio area. The Arlington Bank has total assets of \$305 million, total loans of \$244 million, and total deposits of \$260 million (92% of which are core) and also earned a 1.35% return on average assets and 11.93% return on average equity on a trailing twelve month basis.

The merger agreement provides that the shareholders of The Arlington Bank will receive 2.7245 shares of First Merchants Common Stock for each share of The Arlington Bank Common Stock. Based upon First Merchants' January 24, 2017 closing price of \$36.46 per share, the overall transaction is valued at \$75.8 million, or approximately 215% of Arlington's tangible book value and 19.1x last twelve months' earnings. The transaction is expected to be completed mid-year 2017 subject to the approval of The Arlington Bank shareholders, regulatory approvals and other customary closing conditions. The combined financial institution expects to complete integration activities by the end of 2017.

Michael C. Rechin, President and Chief Executive Officer of First Merchants, said, "First Merchants is excited to extend our presence in Columbus, Ohio, with the addition of The Arlington Bank as the newest member of the First Merchants family. The addition of The Arlington Bank supports our growth initiative, making the company more visible and impactful in Columbus, one of the fastest growing cities in the Midwest. From The Arlington Bank's beginning, Jim and Tom, along with their management team and loyal employees, have played a pivotal role in providing real estate financing and retail banking to Columbus consumers, all while maintaining excellent credit quality and producing high levels of performance. The Arlington Bank team has much to be proud of and my teammates and I look forward to working with them as partners."

Under the leadership of Jennifer M. Griffith, First Merchants Bank's Ohio Region President, the bank will have ten full-service banking centers in the Columbus, Ohio, marketplace and nearly \$1 billion in loans extended to central Ohio clients.

Ms. Griffith stated, "This is a tremendous opportunity to join great teams in vibrant neighborhoods. The addition of The Arlington Bank banking centers will provide added convenience for our clients. I look forward to working with Tom to bring the best of commercial banking and mortgage banking to the Columbus marketplace."

First Merchants expects the acquisition to be accretive to earnings during the first full year with a tangible book value earn back of three years. Cost savings are expected to total 35% of Arlington Bank's non-interest expense base. The gross credit and interest rate marks related to the proposed merger total \$7.8 million, or 3.1% percent.

### Financial Highlights

(Dollars in millions)

|                 | First Merchants | Arlington |
|-----------------|-----------------|-----------|
| Total Assets    | \$7,022         | \$305     |
| Total Net Loans | \$4,912         | \$240     |
| Total Deposits  | \$5,444         | \$260     |
| Total Equity    | \$901           | \$35      |
| LTM ROAA        | 1.09%           | 1.35%     |
| TCE / TA        | 9.48%           | 11.47%    |

Financial data as of September 30, 2016

<sup>1</sup> Excludes terminated transactions and self-advisory roles

Source: SNL Financial, Company Documents, Press Release

### Pro Forma Map



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