UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________to_________

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 or organization)	(I.R.S. Employer Identification No.)
200 East Jackson Muncie, Indiana	47305-2814 (Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code: (765) 747-1500

Securities registered pursuant to Section 12 (b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock, $.125 stated value per share

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

Indicate by check mark whether the registrant(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer[ ] Accelerated filer[X] Non-accelerated filer[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No[X]

The aggregate market value (not necessarily a reliable indication of the price at which more than a limited number of shares would trade) of the voting stock held by non-affiliates of the registrant was $457,630,766 as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2005).

As of March 7, 2006 there were 18,427,098 outstanding common shares, without par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Part of Form 10-K Into Which Incorporated
Portions of the Registrant's Annual Report to Shareholders for the year ended December 31, 2005	Part I (Item 1) Part II (Items 5, 6, 7, 7A, and 8)
Portions of the Registrant's Definitive Proxy Statement for Annual Meeting of Shareholders to be held April 13, 2006	Part III (Items 10 through 14)

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STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Corporation from time to time includes forward-looking statements in its oral and written communication. The Corporation may include forward-looking statements in filings with the Securities and Exchange Commission, such as this Form 10-K, in other written materials and in oral statements made by senior management to analysts, investors, representatives of the media and others. The Corporation intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and the Corporation is including this statement for purposes of these safe harbor provisions. Forward-looking statements can often 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:

* statements of the Corporation's goals, intentions and expectations;

* statements regarding the Corporation's business plan and growth strategies;

* statements regarding the asset quality of the Corporation's loan and investment portfolios; and

* estimates of the Corporation's risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors which could affect the actual outcome of future events:

* fluctuations in market rates of interest and loan and deposit pricing, which could negatively affect the Corporation's net interest margin, asset valuations and expense expectations;

* adverse changes in the economy, which might affect the Corporation's business prospects and could cause credit-related losses and expenses;

* adverse developments in the Corporation's loan and investment portfolios;

* competitive factors in the banking industry, such as the trend towards consolidation in the Corporation's market;

* changes in the banking legislation or the regulatory requirements of federal and state agencies applicable to bank holding companies and banks like the Corporation's affiliate banks;

* acquisitions of other businesses by the Corporation and integration of such acquired businesses;

* changes in market, economic, operational, liquidity, credit and interest rate risks associated with the Corporation's business; and

* the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends.

Because of these and other uncertainties, the Corporation's actual future results may be materially different from the results indicated by these forward-looking statements. In addition, the Corporation's past results of operations do not necessarily indicate its future results.

PART I

Item 1. BUSINESS

GENERAL

First Merchants Corporation (the "Corporation") is a financial holding company headquartered in Muncie, Indiana. The Corporation's Common Stock is traded on NASDAQ's National Market System under the symbol FRME and was organized in September 1982. Since its organization, the Corporation has grown to include nine affiliate banks with over sixty-five locations in seventeen Indiana and three Ohio counties, a trust company, a multi-line insurance agency, a reinsurance agency, and a title agency.

The bank subsidiaries of the Corporation include the following:

* First Merchants Bank, National Association in Delaware and Hamilton counties;
* The Madison Community Bank, National Association in Madison County;
* First United Bank, National Association in Henry County;
* United Communities National Bank with locations in Randolph, Union, Fayette, Wayne and Butler (OH) counties;
* The First National Bank of Portland in Jay County;
* Decatur Bank & Trust Company, National Association in Adams County;
* Frances Slocum Bank & Trust Company, National Association in Wabash, Howard, and Miami counties;
* Lafayette Bank and Trust Company, National Association in Tippecanoe, Carroll, Jasper, and White counties; and
* Commerce National Bank in Franklin and Hamilton counties in Ohio.

Effective January 1, 2006, First United Bank, National Association was merged into First Merchants Bank, National Association, and the name of the continuing institution is First Merchants Bank, National Association.

The Corporation also operates First Merchants Insurance Services, Inc. a full- service property, casualty, personal lines, and health care insurance agency headquartered in Muncie, Indiana. On September 1, 2005, Trustcorp Financial Services of Greenville, Inc. merged with and into First Merchants Insurance Services, Inc. The Corporation is also the majority owner of the Indiana Title Insurance Company LLC, a full-service title insurance agency; operates First Merchants Reinsurance Co. Ltd., a reinsurance agency; and wholly-owns Merchants Trust Company, National Association, a trust and asset management services company.

As of December 31, 2005, the Corporation had consolidated assets of $3.2 billion, consolidated deposits of $2.4 billion and stockholders' equity of $313 million. The Corporation is presently engaged in conducting commercial banking business through the offices of its nine banking subsidiaries. As of December 31, 2005, the Corporation and its subsidiaries had 1,109 full-time equivalent employees.

Through its bank subsidiaries, the Corporation offers a broad range of financial services, including: accepting time, savings and demand deposits; making consumer, commercial, agri-business and real estate mortgage loans; renting safe deposit facilities; providing personal and corporate trust services; providing full service brokerage; and providing other corporate services, letters of credit and repurchase agreements. Through various nonbank subsidiaries, the Corporation also offers personal and commercial lines of insurance and engages in the title agency business and the reinsurance of credit life, accident, and health insurance.

The Corporation makes its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, available on its website at www.firstmerchants.com without charge, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission. These documents can also be read and copied at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public at the Securities and Exchange Commission's web site at http://www.sec.gov. Additionally, the Corporation will also provide without charge, a copy of its Form 10-K to any shareholder by mail. Requests should be sent to Mr. Brian Edwards, Shareholder Relations Officer, First Merchants Corporation, P.O. Box 792, Muncie, IN 47308-0792.

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ACQUISITION POLICY

The Corporation anticipates that it will continue its policy of geographic expansion of its banking business through the acquisition of banks whose operations are consistent with its community banking philosophy. Management routinely explores opportunities to acquire financial institutions and other financial services-related businesses and to enter into strategic alliances to expand the scope of its services and its customer base.

COMPETITION

The Corporation's banking subsidiaries are located in Indiana and Ohio counties where other financial services companies provide similar banking services. In addition to the competition provided by the lending and deposit gathering subsidiaries of national manufacturers, retailers, insurance companies and investment brokers, the banking subsidiaries compete vigorously with other banks, thrift institutions, credit unions and finance companies located within their service areas.

REGULATION AND SUPERVISION

OF FIRST MERCHANTS CORPORATION AND SUBSIDIARIES

BANK HOLDING COMPANY REGULATION

The Corporation is registered as a bank holding company and has elected to be a financial holding company. It is subject to the supervision of, and regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve") under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). Bank holding companies are required to file periodic reports with and are subject to periodic examination by the Federal Reserve. The Federal Reserve has issued regulations under the BHC Act requiring a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. Thus, it is the policy of the Federal Reserve that a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity. Additionally, under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), a bank holding company is required to guarantee the compliance of any subsidiary bank that may become "undercapitalized" (as defined in the FDICIA section of this Form 10-K) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency. Under the BHC Act, the Federal Reserve has the authority to require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the determination that such activity constitutes a serious risk to the financial stability of any bank subsidiary.

The BHC Act requires the Corporation to obtain the prior approval of the Federal Reserve before:

1. Acquiring direct or indirect control or ownership of any voting shares of any bank or bank holding company if, after such acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the bank or bank holding company.

2. Merging or consolidating with another bank holding company; or

3. Acquiring substantially all of the assets of any bank.

The BHC Act generally prohibits bank holding companies that have not become financial holding companies from (i) engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries, and (ii) acquiring or retaining direct or indirect control of any company engaged in the activities other than those activities determined by the Federal Reserve to be closely related to banking or managing or controlling banks.

The BHC Act does not place territorial restrictions on such nonbanking-related activities.

CAPITAL ADEQUACY GUIDELINES FOR BANK HOLDING COMPANIES

The Corporation is required to comply with the Federal Reserve's risk-based capital guidelines. These guidelines require a minimum ratio of capital to risk-weighted assets of 8% (including certain off-balance sheet activities such as standby letters of credit). At least half of the total required capital must be "Tier 1 capital," consisting principally of stockholders' equity, noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interest in the equity accounts of consolidated subsidiaries, less certain goodwill items. The remainder may consist of a limited amount of subordinate debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, cumulative perpetual preferred stock, and a limited amount of the general loan loss allowance.

In addition to the risk-based capital guidelines, the Federal Reserve has adopted a Tier 1 (leverage) capital ratio under which the Corporation must maintain a minimum level of Tier 1 capital to average total consolidated assets. The ratio is 3% in the case of bank holding companies which have the highest regulatory examination ratings and are not contemplating significant growth or expansion. All other bank holding companies are expected to maintain a ratio of at least 1% to 2% above the stated minimum.

The following are the Corporation's regulatory capital ratios as of December 31, 2005:

	Corporation	Regulatory Minimum Requirement
Tier 1 Capital: (to risk-weighted assets)	9.7%	4.0%
Total Capital:	11.7%	8.0%

BANK REGULATION

Each of the Corporation's bank subsidiaries are national banks and are supervised, regulated and examined by the Office of the Comptroller of the Currency (the "OCC"). The OCC has the authority to issue cease-and-desist orders if it determines that activities of the bank regularly represent an unsafe and unsound banking practice or a violation of law. Federal law extensively regulates various aspects of the banking business such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Current federal law also requires banks, among other things, to make deposited funds available within specified time periods.

BANK CAPITAL REQUIREMENTS

The OCC has adopted risk-based capital ratio guidelines to which national banks are subject. The guidelines establish a framework that makes regulatory capital requirements more sensitive to differences in risk profiles. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk.

Like the capital guidelines established by the Federal Reserve, these guidelines divide a bank's capital into tiers. Banks are required to maintain a total risk-based capital ratio of 8%. The OCC may, however, set higher capital requirements when a bank's particular circumstances warrant. Banks experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

In addition, the OCC established guidelines prescribing a minimum Tier 1 leverage ratio (Tier 1 capital to adjusted total assets as specified in the guidelines). These guidelines provide for a minimum Tier 1 leverage ratio of 3% for banks that meet specified criteria, including that they have the highest regulatory rating and are not experiencing or anticipating significant growth. All other banks are required to maintain a Tier 1 leverage ratio of 3% plus an additional 100 to 200 basis points.

All of the Corporation's affiliate banks exceed the risk-based capital guidelines of the OCC as of December 31, 2005.

The Federal Reserve and the OCC have adopted rules to incorporate market and interest rate risk components into their risk-based capital standards. Amendments to the risk-based capital requirements, incorporating market risk, became effective January 1, 1998. Under the new market risk requirements, capital will be allocated to support the amount of market risk related to a financial institution's ongoing trading activities.

FDIC IMPROVEMENT ACT OF 1991

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires, among other things, federal bank regulatory authorities to take "prompt corrective action" with respect to banks which do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The FDIC has adopted regulations to implement the prompt corrective action provisions of FDICIA.

"Undercapitalized" banks are subject to growth limitations and are required to submit a capital restoration plan. A bank's compliance with such plan is required to be guaranteed by the bank's parent holding company. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. "Significantly undercapitalized" banks are subject to one or more restrictions, including an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cease receipt of deposits from correspondent banks, and restrictions on compensation of executive officers. "Critically undercapitalized" institutions may not, beginning 60 days after becoming "critically undercapitalized," make any payment of principal or interest on certain subordinated debt or extend credit for a highly leveraged transaction or enter into any transaction outside the ordinary course of business. In addition, "critically undercapitalized" institutions are subject to appointment of a receiver or conservator.

FDICIA continued

As of December 31, 2005, each bank subsidiary of First Merchants is "well capitalized" based on the "prompt corrective action" ratios and deadlines described above. It should be noted, however, that a bank's capital category is determined solely for the purpose of applying the OCC's "prompt corrective action" regulations and that the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects.

DEPOSIT INSURANCE

The Corporation's affiliated banks are insured up to regulatory limits by the FDIC and, accordingly, are subject to deposit insurance assessments to maintain the Bank Insurance Fund (the "BIF") and the Savings Association Insurance Fund ("SAIF") administered by the FDIC. The FDIC has adopted regulations establishing a permanent risk-related deposit insurance assessment system. Under this system, the FDIC places each insured bank in one of nine risk categories based on (i) the bank's capitalization, and (ii) supervisory evaluations provided to the FDIC by the institution's primary federal regulator. Each insured bank's insurance assessment rate is then determined by the risk category in which it is classified by the FDIC.

The Deposit Insurance Funds Act of 1996 provides for assessments to be imposed on insured depository institutions with respect to deposits insured by the BIF and the SAIF (in addition to assessments currently imposed on depository institutions with respect to BIF- and SAIF-insured deposits) to pay for the cost of Financing Corporation ("FICO") funding. The FICO assessments do not vary depending upon a depository institution's capitalization or supervisory evaluations.

DIVIDEND LIMITATIONS

National banking laws restrict the amount of dividends that an affiliate bank may declare in a year without obtaining prior regulatory approval. National banks are limited to the bank's retained net income (as defined) for the current year plus those for the previous two years. At December 31, 2005, the Corporation's affiliate banks had a total of $17,060,000 retained net profits available for 2006 dividends to the Corporation without prior regulatory approval.

BROKERED DEPOSITS

Under FDIC regulations, no FDIC-insured depository institution can accept brokered deposits unless it (i) is well capitalized, or (ii) is adequately capitalized and received a waiver from the FDIC. In addition, these regulations prohibit any depository institution that is not well capitalized from (a) paying an interest rate on deposits in excess of 76 basis points over certain prevailing market rates or (b) offering "pass through" deposit insurance on certain employee benefit plan accounts unless it provides certain notice to affected depositors.

INTERSTATE BANKING AND BRANCHING

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal") subject to certain concentration limits, required regulatory approvals and other requirements, (i) financial holding companies such as the Corporation are permitted to acquire banks and bank holding companies located in any state; (ii) any bank that is a subsidiary of a bank holding company is permitted to receive deposits, renew time deposits, close loans, service loans and receive loan payments as an agent for any other bank subsidiary of that holding company; and (iii) banks are permitted to acquire branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states, and establishing de novo branch offices in other states.

FINANCIAL SERVICES MODERNIZATION ACT

The Gramm-Leach-Bliley Act of 1999 (the "Financial Services Modernization Act") establishes a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the existing BHC Act. Under this legislation, bank holding companies would be permitted to conduct essentially unlimited securities and insurance activities as well as other activities determined by the Federal Reserve Board to be financial in nature or related to financial services. As a result, the Corporation is able to provide securities and insurance services. Furthermore, under this legislation, the Corporation is able to acquire, or be acquired by, brokerage and securities firms and insurance underwriters. In addition, the Financial Services Modernization Act broadens the activities that may be conducted by national banks through the formation of financial subsidiaries. Finally, the Financial Services Modernization Act modifies the laws governing the implementation of the Community Reinvestment Act and addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act, by filing a declaration that the bank holding company wishes to become a financial holding company. Also effective March 11, 2000, no regulatory approval is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. The Federal Reserve Bank of Chicago approved the Corporation's application to become a Financial Holding Company effective September 13, 2000.

USA PATRIOT ACT

As part of the USA Patriot Act, signed into law on October 26, 2001, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the "Act"). The Act authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country. In addition, the Act expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours.

Treasury regulations implementing the due diligence requirements were issued in 2002. These regulations required minimum standards to verify customer identity, encouraged cooperation among financial institutions, federal banking agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, prohibited the anonymous use of "concentration accounts," and required all covered financial institutions to have in place an anti-money laundering compliance program.

The Act also amended the Bank Holding Company Act and the Bank Merger Act to require the federal banking agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing an application under these acts.

THE SARBANES-OXLEY ACT

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), which became law on July 30, 2002, added new legal requirements for public companies affecting corporate governance, accounting and corporate reporting. The Sarbanes-Oxley Act provides for, among other things:

* a prohibition on personal loans made or arranged by the issuer to its directors and executive officers (except for loans made by a bank subject to Regulation O);

* independence requirements for audit committee members;

* independence requirements for company auditors;

* certification of financial statements on Forms 10-K and 10-Q reports by the chief executive officer and the chief financial officer;

* the forfeiture by the chief executive officer and chief financial officer of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by such officers in the twelve month period following initial publication of any financial statements that later require restatement due to corporate misconduct;

* disclosure of off-balance sheet transactions;

* two-business day filing requirements for insiders filing Form 4s;

* disclosure of a code of ethics for financial officers and filing a Form 8-K for a change in or waiver of such code;

* the reporting of securities violations "up the ladder" by both in-house and outside attorneys;

* restrictions on the use of non-GAAP financial measures in press releases and SEC filings;

* the formation of a public accounting oversight board; and

* various increased criminal penalties for violations of securities laws.

The Sarbanes-Oxley Act contains provisions which became effective upon enactment on July 30, 2002,including provisions which became effective from within 30 days to one year from enactment. The SEC has been delegated the task of enacting rules to implement various provisions. In addition, each of the national stock exchanges developed new corporate governance rules, including rules strengthening director independence requirements for boards, the adoption of corporate governance codes and charters for the nominating, corporate governance and audit committees.

ADDITIONAL MATTERS

The Corporation and its affiliate banks are subject to the Federal Reserve Act, which restricts financial transactions between banks and affiliated companies. The statute limits credit transactions between banks, affiliated companies and its executive officers and its affiliates. The statute prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, and restricts the types of collateral security permitted in connection with the bank's extension of credit to an affiliate. Additionally, all transactions with an affiliate must be on terms substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated parties.

In addition to the matters discussed above, the Corporation's affiliate banks are subject to additional regulation of their activities, including a variety of consumer protection regulations affecting their lending, deposit and collection activities and regulations affecting secondary mortgage market activities.

The earnings of financial institutions are also affected by general economic conditions and prevailing interest rates, both domestic and foreign, and by the monetary and fiscal policies of the United States Government and its various agencies, particularly the Federal Reserve. The Federal Reserve regulates the supply of credit in order to influence general economic conditions, primarily through open market operations in United States government obligations, varying the discount rate on financial institution borrowings, varying reserve requirements against financial institution deposits, and restricting certain borrowings by financial institutions and their subsidiaries. The monetary policies of the Federal Reserve have had a significant effect on the operating results of the bank subsidiaries in the past and are expected to continue to do so in the future.

Additional legislation and administrative actions affecting the banking industry may be considered by the United States Congress, state legislatures and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislation or administrative action will be enacted or the extent to which the banking industry in general or the Corporation and its affiliate banks in particular would be affected.

STATISTICAL DATA

The following tables set forth statistical data relating the Corporation and its subsidiaries.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL
The daily average balance sheet amounts, the related interest income or expense, and average rates earned or paid are presented in the following table.
(Dollars in Thousands)

	2005			2004			2003		
	Average Balance	Interest Income/ Balance	Average Rate	Average Balance	Interest Income/ Balance	Average Rate	Average Balance	Interest Income/ Balance	Average Rate
Assets:									
Federal funds sold	$ 8,385	$ 264	3.1%	$ 7,759	$ 165	2.1%	$ 44,243	$ 485	1.1%
Interest-bearing deposits......	16,683	695	4.2	17,500	555	3.2	6,655	76	1.1
Federal Reserve and Federal Home Loan Bank stock.	23,019	1,185	5.1	22,655	1,250	5.5	13,615	649	4.8
Securities: (1)									
Taxable	263,435	9,612	3.6	247,930	8,371	3.4	181,698	6,105	3.4
Tax-exempt (3).................	162,965	9,807	6.0	141,205	9,382	6.6	136,028	9,648	7.1
Total Securities.............	426,400	19,419	4.6	389,135	17,753	4.6	317,726	15,753	5.0
Mortgage loans held for sale.....	2,746	113	4.1	4,205	240	5.7	12,294	725	5.9
Loans: (2)									
Commercial	1,569,270	105,740	6.7	1,495,195	89,108	6.0	1,387,704	82,183	5.9
Bankers' acceptance and Commercial paper purchased...							4,660	61	1.3
Real estate mortgage...........	464,426	27,334	5.9	486,377	27,969	5.8	517,376	32,100	6.2
Installment	385,097	25,248	6.6	372,817	22,636	6.1	345,084	26,167	7.6
Tax-exempt (3).................	12,595	989	7.9	10,423	894	8.6	14,496	1,088	7.5
Total loans	2,434,134	159,424	6.5	2,369,017	140,847	5.9	2,281,614	142,324	6.2
Total earning assets.........	2,908,621	180,987	6.3	2,806,066	160,570	5.7	2,663,853	159,287	6.0
Net unrealized gain (loss) on securities available for sale...........	(1,217)			4,676			7,553		
Allowance for loan losses........	(24,889)			(26,093)			(28,906)		
Cash and due from banks..........	53,037			63,420			75,801		
Premises and equipment	38,284			38,397			39,069		
Other assets	205,628			222,638			202,825		
Total assets	$3,179,464			$3,109,104			$2,960,195		
Liabilities:									
Interest-bearing deposits:									
NOW accounts	$ 395,356	2,058	0.5%	$ 346,525	1,779	0.5%	$ 344,933	2,015	0.6%
Money market deposit accounts	280,508	4,899	1.7	359,359	3,219	0.9	336,669	3,360	1.0
Savings deposits	319,552	2,583	0.8	297,364	992	0.3	293,119	1,376	0.5
Certificates and other time deposits	1,149,679	36,581	3.2	1,051,092	27,854	2.7	988,957	28,107	2.8
Total interest-bearing deposits.....................	2,145,095	46,121	2.2	2,054,340	33,844	1.6	1,963,678	34,858	1.8
Borrowings	412,091	19,959	4.8	402,776	17,741	4.4	381,178	17,530	4.6
Total interest-bearing liabilities.................	2,557,186	66,080	2.6	2,457,116	51,585	2.1	2,344,856	52,388	2.2
Noninterest-bearing deposits.....	273,657			310,966			293,397		
Other liabilities	33,096			31,018			28,339		
Total liabilities............	2,863,939			2,799,100			2,666,592		
Stockholders' equity	315,525			310,004			293,603		
Total liabilities and stockholders' equity........	$3,179,464	66,080	2.3	$3,109,104	51,585	1.8	$2,960,195	52,388	2.0
Net interest income		$114,907			$108,985			$106,899	
Net interest margin..........			4.0			3.9			4.0

(1) Average balance of securities is computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.
(2) Nonaccruing loans have been included in the average balances.
(3) Tax exempt securities and loans are presented on a fully taxable equivalent basis, using a marginal tax rate of 35% for 2005, 2004, and 2003.........................

	2005	2004	2003
	$3,778	$3,597	$3,757

STATISTICAL DATA (continued)

ANALYSIS OF CHANGES IN NET INTEREST INCOME

The following table presents net interest income components on a tax-equivalent basis and reflects changes between periods attributable to movement in either the average balance or average interest rate for both earning assets and interest-bearing liabilities. The volume differences were computed as the difference in volume between the current and prior year times the interest rate of the prior year, while the interest rate changes were computed as the difference in rate between the current and prior year times the volume of the prior year. Volume/rate variances have been allocated on the basis of the absolute relationship between volume variances and rate variances.

	2005 Compared to 2004 Increase (Decrease) Due To			2004 Compared to 2003 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in Thousands on Fully Taxable Equivalent Basis)					
Interest income:						
Federal funds sold	$ 14	$ 85	$ 99	$ (577)	$ 257	$ (320)
Interest-bearing deposits	(27)	167	140	229	250	479
Federal Reserve and Federal Home Loan Bank stock	36	(101)	(65)	474	127	601
Securities	1,697	(31)	1,666	3,332	(1,332)	2,000
Mortgage loans held for sale	(70)	(57)	(127)	(462)	(23)	(485)
Loans	4,027	14,677	18,704	5,843	(6,835)	(992)
Totals	5,677	14,740	20,417	8,839	(7,556)	1,283
Interest expense:						
NOW accounts	254	25	279	9	(245)	(236)
Money market deposit accounts	(832)	2,512	1,680	217	(358)	(141)
Savings deposits	79	1,512	1,591	20	(404)	(384)
Certificates and other time deposits	2,780	5,947	8,727	1,708	(1,961)	(253)
Borrowings	418	1,800	2,218	969	(758)	211
Totals	2,699	11,796	14,495	2,923	(3,726)	(803)
Change in net interest income (fully taxable equivalent basis)	$ 2,978	$ 2,944	5,922	$ 5,916	$ (3,830)	2,086
Tax equivalent adjustment using marginal rate of 35% for 2005, 2004, and 2003			(182)			161
Change in net interest income			$ 5,740			$ 2,247

STATISTICAL DATA (continued)

INVESTMENT SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses and approximate market value of the investment securities at the dates indicated were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Available for sale at December 31, 2005				
U.S. Treasury	$ 1,586		$ 1	$ 1,585
U.S. Government-sponsored agency securities..	83,026	$ 1	1,836	81,191
State and municipal	167,095	2,159	1,131	168,123
Mortgage-backed securities	168,019	139	5,656	162,502
Other asset-backed securities	1			1
Marketable equity securities	9,660		435	9,225
Total available for sale	429,387	2,299	9,059	422,627
Held to maturity at December 31, 2005				
State and municipal	11,609	283	412	11,480
Mortgage-backed securities	30			30
Total held to maturity	11,639	283	412	11,510
Total investment securities	$441,026	$ 2,582	$ 9,471	$434,137

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Available for sale at December 31, 2004				
U.S. Treasury	$ 1,745		$ 1	$ 1,744
U.S. Government-sponsored agency securities..	65,325	$ 73	332	65,066
State and municipal	150,284	5,243	82	155,445
Mortgage-backed securities	183,200	485	1,980	181,705
Other asset-backed securities	18			18
Marketable equity securities	12,191	8		12,199
Total available for sale	412,763	5,809	2,395	416,177
Held to maturity at December 31, 2004				
State and municipal	5,306	162		5,468
Mortgage-backed securities	52			52
Total held to maturity	5,358	162		5,520
Total investment securities	$418,121	$ 5,971	$ 2,395	$421,697

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STATISTICAL DATA (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Available for sale at December 31, 2003				
U.S. Treasury	$ 1,498			$ 1,498
U.S. Government-sponsored agency securities	38,290	$ 523	$ 52	38,761
State and municipal	118,794	6,932	86	125,640
Mortgage-backed securities	174,208	813	1,817	173,204
Corporate obligations	500	16		516
Marketable equity securities	9,237	4		9,241
Total available for sale	342,527	8,288	1,955	348,860
Held to maturity at December 31, 2003				
State and municipal	7,860	389		8,249
Mortgage-backed securities	77			77
Total held to maturity	7,937	389		8,326
Total investment securities	$350,464	$ 8,677	$ 1,955	$357,186

	Cost		
	2005	2004	2003
	(Dollars in Thousands)		
Federal Reserve and Federal Home Loan Bank stock at December 31:			
Federal Reserve Bank stock	$ 8,913	$ 8,814	$ 2,320
Federal Home Loan Bank stock	14,287	14,044	13,182
Total	$23,200	$22,858	$15,502

The fair value of Federal Reserve and Federal Home Loan Bank stock approximates cost.

There were no issuers included in our investment security portfolio at December 31, 2005, 2004 or 2003 where the aggregate carrying value of any one issuer exceeded 10 percent of the Corporation's stockholders' equity at those dates. The term "issuer" excludes the U.S. Government and its sponsored agencies and corporations.

The maturity distribution (Dollars in Thousands) and average yields for the securities portfolio at December 31, 2005 were:

Securities available for sale December 31, 2005:

	Within 1 Year		1-5 Years		5-10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury	$ 1,585	4.2%				
U.S. Government-sponsored agency securities	3,093	2.5	$ 78,098	3.9%		
State and Municipal	8,167	5.1	90,109	4.6	$53,734	6.3%
Total	$12,845	4.4%	$168,207	4.3%	$53,734	6.3%

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STATISTICAL DATA (continued)

	Due After Ten Years		Marketable Equity and Mortgage - Backed Securities		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury........................					$ 1,585	4.2%
U.S. Government-sponsored agency securities.................					81,191	3.8
State and Municipal..................	$ 16,112	7.8%			168,122	5.5
Marketable equity securities.........			$ 9,225	5.6%	9,225	5.6
Mortgage-backed securities...........			162,503	4.0	162,503	4.0
Other asset-backed securities........			1	7.0	1	7.0
Total............................	$ 16,112	7.8%	$ 171,729	4.1%	$422,627	4.6%

Securities held to maturity at December 31, 2005:

	Within 1 Year		1-5 Years		5-10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
State and municipal..................	$ 733	7.9%	$ 1,943	8.1%	$ 960	6.3%

	Due After Ten Years		Mortgage-Backed Securities		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
State and municipal..................	$ 7,973	7.0%			$11,609	7.2%
Other asset-backed securities........			$ 30	8.4%	30	8.4
Total............................	$ 7,973	7.0%	$ 30	8.4%	$11,639	7.2%

*Interest yields on state and municipal securities are presented on a fully taxable equivalent basis using a 35% rate.

STATISTICAL DATA (continued)

Federal Reserve and Federal Home Loan Bank stock at December 31, 2005:

	(Dollars in Thousands) Amount	Yield
Federal Reserve Bank Stock...........	$ 8,913	6.0%
Federal Home Loan Bank stock.........	14,287	4.3
Total............................	$23,200	4.9%

The following tables show the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2005 and 2004:

	Less than 12 Months		12 Months or Longer		Total	
	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES
	(Dollars in Thousands)					
Temporarily impaired investment securities at December 31, 2005:						
U.S. Treasury	$ 1,487	$ (1)			$ 1,487	$ (1)
U.S. Government-sponsored agency securities...........	31,692	(581)	$ 45,466	$ (1,255)	77,158	(1,836)
State and municipal	90,905	(1,501)	2,124	(42)	93,029	(1,543)
Mortgage-backed securities	59,595	(1,511)	96,120	(4,141)	155,715	(5,652)
Marketable equity securities..........................	27	(8)	1,072	(431)	1,099	(439)
Total temporarily impaired investment securities ..	$ 183,706	$ (3,602)	$ 144,782	$ (5,869)	$328,488	$ (9,471)

	Less than 12 Months		12 Months or Longer		Total	
	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES
	(Dollars in Thousands)					
Temporarily impaired investment securities at December 31, 2004:						
U.S. Treasury	$ 1,496	$ (1)			$ 1,496	$ (1)
U.S. Government-sponsored agency securities...........	46,227	(303)	$ 1,472	$ (29)	47,699	(332)
State and municipal	2,976	(20)	1,094	(62)	4,070	(82)
Mortgage-backed securities	109,213	(1,129)	27,493	(851)	136,706	(1,980)
Total temporarily impaired investment securities ..	$ 159,912	$ (1,453)	$ 30,059	$ (942)	$189,971	$ (2,395)

STATISTICAL DATA (continued)

LOAN PORTFOLIO

TYPES OF LOANS

The loan portfolio at the dates indicated is presented below:

	2005	2004	2003	2002	2001
			(Dollars in Thousands)		
Loans at December 31:					
Commercial and industrial loans.............	$ 461,102	$ 451,227	$ 435,221	$ 401,395	$ 301,962
Agricultural production financing and other loans to farmers.......	95,130	98,902	95,048	85,059	29,645
Real estate loans:					
Construction...............................	174,783	164,738	149,865	133,896	58,316
Commercial and farmland....................	734,865	709,163	564,578	401,561	230,233
Residential................................	751,217	761,163	866,477	746,349	544,028
Individuals' loans for household and other personal expenditures..	200,139	198,532	196,093	206,083	179,325
Tax-exempt loans............................	8,263	8,203	16,363	12,615	7,277
Lease financing receivibles, net of unearned income	8,713	11,311	7,919	5,249	
Other loans.................................	23,215	24,812	21,939	12,170	8,800
Total loans........................	$2,457,427	$2,428,051	$2,353,503	$2,004,377	$1,359,586

Residential Real Estate Loans Held for Sale at December 31, 2005, 2004, 2003, 2002 and 2001 were $4,910,000, $3,367,000, $3,043,000, $21,545,000, and $307,000.

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

Presented in the table below are the maturities of loans (excluding residential real estate, individuals' loans for household and other personal expenditures and lease financing) outstanding as of December 31, 2005. Also presented are the amounts due after one year classified according to the sensitivity to changes in interest rates.

	Maturing			
	Within 1 Year	1-5 Years	Over 5 Years	Total
		(Dollars in Thousands)		
Commercial and industrial loans...............	$ 296,921	$ 100,558	$ 63,623	$ 461,102
Agricultural production financing and other loans to farmers..................	79,693	11,343	4,094	95,130
Real estate - Construction....................	135,165	33,906	5,712	174,783
Real estate - Commercial and farmland..........	358,951	314,272	61,642	734,865
Tax-exempt loans..............................	1,539	1,788	4,936	8,263
Other loans...................................	12,384	10,551	280	23,215
Total...................................	$ 884,653	$ 472,418	$140,287	$1,497,358

	Maturing	
	1 - 5 Years	Over 5 Years
	(Dollars in Thousands)	
Loans maturing after one year with:		
Fixed rate	$ 118,119	$ 94,083
Variable rate	354,299	46,204
Total	$ 472,418	$ 140,287

NONACCRUING, CONTRACTUALLY PAST DUE 90 DAYS OR MORE
OTHER THAN NONACCRUING AND RESTRUCTURED LOANS

	December 31				
	2005	2004	2003	2002	2001
	(Dollars in Thousands)				
Nonaccruing loans	$10,030	$15,355	$19,453	$14,134	$6,327
Loans contractually past due 90 days or more other than nonaccruing	3,965	1,907	6,530	6,676	4,828
Restructured loans	310	2,019	641	2,508	3,511
	$14,305	$19,281	$26,624	$23,318	$14,666

Nonaccruing loans are loans which are reclassified to a nonaccruing status when in management's judgment the collateral value and financial condition of the borrower do not justify accruing interest. Interest previously recorded, but not deemed collectible, is reversed and charged against current income. Interest income on these loans is then recognized when collected.

Restructured loans are loans for which the contractual interest rate has been reduced or other concessions are granted to the borrower, because of a deterioration in the financial condition of the borrower resulting in the inability of the borrower to meet the original contractual terms of the loans.

Interest income of $788,000 for the year ended December 31, 2005, was recognized on the nonaccruing and restructured loans listed in the table above, whereas interest income of $1,074,000 would have been recognized under their original loan terms.

Potential problem loans:

Management has identified certain other loans totaling $64,494,000 as of December 31, 2005, not included in the table above, or the impaired loan table in the footnotes to the consolidated financial statements, about which there are doubts as to the borrowers' ability to comply with present repayment terms.

The Corporation's affiliate banks generate commercial, mortgage and consumer loans from customers located primarily in north-central and east-central Indiana and Butler, Franklin and Hamilton counties in Ohio. The Banks' loans are generally secured by specific items of collateral, including real property, consumer assets, and business assets.

STATISTICAL DATA (continued)

SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes the loan loss experience for the years indicated.

	2005	2004	2003	2002	2001
			(Dollars in Thousands)		
Allowance for loan losses:					
Balance at January 1	$ 22,548	$ 25,493	$ 22,417	$ 15,141	$ 12,454
Chargeoffs:					
Commercial and industrial(1)	3,763	7,455	5,023	4,711	1,688
Real estate mortgage(3)	2,117	1,588	2,111	800	227
Individuals' loans for household and other personal expenditures, including other loans	1,864	1,858	5,005	2,602	1,632
Total chargeoffs	7,744	10,901	12,139	8,113	3,547
Recoveries:					
Commercial and industrial(2)	1,283	1,629	1,002	549	176
Real estate mortgage(4)	122	161	421	92	32
Individuals' loans for household and other personal expenditures, including other loans	625	461	588	672	365
Total recoveries	2,030	2,251	2,011	1,313	573
Net chargeoffs	5,714	8,650	10,128	6,800	2,974
Provisions for loan losses	8,354	5,705	9,477	7,174	3,576
Allowance acquired in purchase			3,727	6,902	2,085
Balance at December 31	$25,188	$22,548	$25,493	$22,417	$15,141

(1)Category also includes the chargeoffs for lease financing, loans to financial institutions, tax-exempt loans and agricultural production financing and other loans to farmers.
(2)Category also includes the recoveries for lease financing, loans to financial institutions, tax-exempt loans and agricultural production financing and other loans to farmers.
(3)Category includes the chargeoffs for construction, commercial and farmland and residential real estate loans.
(4)Category includes the recoveries for construction, commercial and farmland and residential real estate loans.

	2005	2004	2003	2002	2001
Ratio of net chargeoffs during the period to average loans outstanding during the period	.23%	.37%	.44%	.37%	.23%

STATISTICAL DATA (continued)

The information regarding the analysis of loan loss experience on pages 9 and 10 of the First Merchants Corporation - Annual Report 2005 under the caption "ASSET QUALITY/PROVISION FOR LOAN LOSSES" is expressly incorporated herein by reference.

Allocation of the Allowance for Loan Losses at December 31:

Presented below is an analysis of the composition of the allowance for loan losses and percent of loans in each category to total loans:

	2005		2004	
	Amount	Per Cent	Amount	Per Cent
	(Dollars in Thousands)			
Balance at December 31:				
Commercial and industrial(1)................	$ 7,430	31.0%	$ 16,821	30.9%
Real estate mortgage(2).....................	13,149	60.5	1,916	60.6
Individuals' loans for household and other personal expenditures, including other loans.....................	4,509	8.5	3,711	8.5
Unallocated.................................	100	N/A	100	N/A
Totals......................................	$ 25,188	100.0%	$ 22,548	100.0%

	2003		2002	
	Amount	Per Cent	Amount	Per Cent
	(Dollars in Thousands)			
Balance at December 31:				
Commercial and industrial(1)................	$ 17,517	29.9%	$ 12,405	31.8%
Real estate mortgage(2).....................	4,441	60.8	2,875	57.3
Individuals' loans for household and other personal expenditures, including other loans.....................	3,435	9.3	7,037	10.9
Unallocated.................................	100	N/A	100	N/A
Totals......................................	$ 25,493	100.0%	$ 22,417	100.0%

	2001	
	Amount	Per Cent
	(Dollars in Thousands)	
Balance at December 31:		
Commercial and industrial(1)................	$ 6,884	29.2%
Real estate mortgage(2).....................	2,655	56.9
Individuals' loans for household and other personal expenditures, including other loans.....................	5,502	13.9
Unallocated.	100	N/A
Totals......................................	$ 15,141	100.0%

(1) Category also includes the allowance for loan losses and percent of loans for lease financing, loans to financial institutions, tax-exempt loans, agricultural production financing and other loans to farmers and construction real estate loans.

(2) Category includes the allowance for loan losses and percent of loans for commercial real estate, farmland and residential real estate loans.

At December 31, 2005, the Corporation had no concentration of loans exceeding 10 percent of total loans, which are not otherwise disclosed. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions.

STATISTICAL DATA (continued)

Loan Administration and Loan Loss Chargeoff Procedures

Primary responsibility and accountability for day-to-day lending activities rests with the Corporation's affiliate banks. Loan personnel at each bank have the authority to extend credit under guidelines approved by the bank's board of directors. Executive and board loan committees active at each bank serve as vehicles for communication between the banks and for the pooling of knowledge, judgment and experience of the Corporation's affiliate banks. These committees provide valuable input to lending personnel, act as an approval body, and monitor the overall quality of the banks' loan portfolios. The Corporation also maintains a loan grading and review program for its affiliate banks, which includes quarterly reviews of problem loans, delinquencies and charge-offs. The purpose of this program is to evaluate loan administration, credit quality, loan documentation and the adequacy of the allowance for loan losses.

The Corporation maintains an allowance for loan losses to cover probable credit losses identified during its loan review process. The allowance is increased by the provision for loan losses and decreased by charge-offs less recoveries. All charge-offs are approved by the bank's senior loan officer and are reported to the Banks' Boards. The Banks charge off loans when a determination is made that all or a portion of a loan is uncollectible or as a result of examinations by regulators and the independent auditors.

Provision for Loan Losses

In banking, loan losses are one of the costs of doing business. Although the Banks' management emphasize the early detection and chargeoff of loan losses, it is inevitable that at any time certain losses exist in the portfolio which have not been specifically identified. Accordingly, the provision for loan losses is charged to earnings on an anticipatory basis, and recognized loan losses are deducted from the allowance so established. Over time, all net loan losses must be charged to earnings. During the year, an estimate of the loss experience for the year serves as a starting point in determining the appropriate level for the provision. However, the amount actually provided in any period may be greater or less than net loan losses, based on management's judgment as to the appropriate level of the allowance for loan losses. The determination of the provision in any period is based on management's continuing review and evaluation of the loan portfolio, and its judgment as to the impact of current economic conditions on the portfolio. The evaluation by management includes consideration of past loan loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding.

Impaired loans are measured by the present value of expected future cash flows, or the fair value of the collateral of the loans, if collateral dependent. Information on impaired loans is summarized below:

	2005	2004	2003
	(Dollars in Thousands)		
As of, and for the year ending December 31:			
Impaired loans with an allowance	$ 7,540	$ 7,728	$ 12,725
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	44,840	41,683	32,047
Total impaired loans	$ 52,380	$ 49,411	$ 44,772
Total impaired loans as a percent of total loans	2.13%	2.03%	1.90%
Allowance for impaired loans (included in the Corporation's allowance for loan losses)	$ 2,824	$ 1,673	$ 5,728
Average balance of impaired loans	44,790	59,568	50,245
Interest income recognized on impaired loans	3,747	4,166	3,259
Cash basis interest included above	3,951	3,029	2,714

STATISTICAL DATA (continued)

DEPOSITS

The average balances, interest income and expense and average rates on deposits for the years ended December 2005, 2004 and 2003 are presented within the "Distribution of Assets, Liabilities and Stockholders' Equity, Interest Rates and Interest Differential" table on page 11 of this Form 10-K.

As of December 31, 2005, certificates of deposit and other time deposits of $100,000 or more mature as follows:

	Maturing				
	3 Months or less	3-6 Months	6-12 Months	Over 12 Months	Total
	(Dollars in Thousands)				
Certificates of deposit and other time deposits..........	$109,317	$ 33,338	$ 41,961	$ 92,063	$276,679
Per cent.......................	40%	12%	15%	33%	100%

RETURN ON EQUITY AND ASSETS

The information regarding return on equity and assets presented on page 2 of the First Merchants Corporation - Annual Report 2005 under the caption "Five - Year Summary of Selected Financial Data" is expressly incorporated herein by reference.

SHORT-TERM BORROWINGS

	2005	2004	2003
	(Dollars in Thousands)		
Balance at December 31:			
Securities sold under repurchase agreements (short-term portion)........	$ 106,415	$ 87,472	$ 71,095
Federal funds purchased..................	50,000	32,550	
Total short-term borrowings......	$ 156,415	$ 120,022	$ 71,095

Securities sold under repurchase agreements are borrowings maturing within one year and are secured by U.S. Treasury and U.S. Government-sponsored agency securities.

Pertinent information with respect to short-term borrowings is summarized below:

	2005	2004	2003
	(Dollars in Thousands)		
Weighted average interest rate on outstanding balance at December 31:			
Securities sold under repurchase agreements(short-term portion)..............	3.8%	1.8%	1.4%
Total short-term borrowings.....................	4.3	1.9	1.4
Weighted average interest rate during the year:			
Securities sold under repurchase agreements (short-term portion).............	2.1%	.8%	.9%
Total short-term borrowings.....................	2.3	1.0	.9
Highest amount outstanding at any month end during the year:			
Securities sold under repurchase agreements (short-term portion).............	$ 68,198	$ 37,771	$ 69,396
Total short-term borrowings.....................	144,898	120,019	113,618
Average amount outstanding during the year:			
Securities sold under repurchase agreements (short-term portion).............	$ 77,969	$ 62,702	$ 51,780
Total short-term borrowings.....................	95,447	81,194	59,719

ITEM 1A. RISK FACTORS

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RISK FACTORS

There are a number of factors, including those specified below, that may adversely affect the Corporation's business, financial results or stock price. Additional risks that the Corporation currently does not know about or currently views as immaterial may also impair the Corporation's business or adversely impact its financial results or stock price.

INDUSTRY RISK FACTORS

* The Corporation's business and financial results are significantly affected by general business and economic conditions.

The Corporation's business activities and earnings are affected by general business conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the United States economy and the state and local economies in which the Corporation operates. For example, an economic downturn, an increase in unemployment, or other events that affect household and/or corporate incomes could result in a deterioration of credit quality, a change in the allowance for loan losses, or reduced demand for loan or fee-based products and services. Changes in the financial performance and condition of the Corporation's borrowers could negatively affect repayment of those borrowers' loans. In addition, changes in securities market conditions and monetary fluctuations could adversely affect the availability and terms of funding necessary to meet the Corporation's liquidity needs.

* Changes in the domestic interest rate environment could reduce the Corporation's net interest income.

The operations of financial institutions such as the Corporation are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. An institution's net interest income is significantly affected by market rates of interest, which in turn are affected by prevailing economic conditions, by the fiscal and monetary policies of the federal government and by the policies of various regulatory agencies. Like all financial institutions, the Corporation's balance sheet is affected by fluctuations in interest rates. Volatility in interest rates can also result in the flow of funds away from financial institutions into direct investments. Direct investments, such as U.S. Government and corporate securities and other investment vehicles (including mutual funds) generally pay higher rates of return than financial institutions, because of the absence of federal insurance premiums and reserve requirements.

* Changes in the laws, regulations and policies governing banks and financial services companies could alter the Corporation's business environment and adversely affect operations.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its fiscal and monetary policies determine in a large part the Corporation's cost of funds for lending and investing and the return that can be earned on those loans and investments, both of which affect the Corporation's net interest margin. Federal Reserve Board policies can also materially affect the value of financial instruments that the Corporation holds, such as debt securities. The Corporation and its bank subsidiaries are heavily regulated at the federal and state levels. This regulation is to protect depositors, federal deposit insurance funds and the banking system as a whole. Congress and state legislatures and federal and state agencies continually review banking laws, regulations and policies for possible changes. Changes in statutes, regulations or policies could affect the Corporation in substantial and unpredictable ways, including limiting the types of financial services and products that the Corporation offers and/or increasing the ability of non-banks to offer competing financial services and products. The Corporation cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it or any regulations would have on the Corporation's financial condition or results of operations.

* The banking and financial services industry is highly competitive, and competitive pressures could intensify and adversely affect the Corporation's financial results.

The Corporation operates in a highly competitive industry that could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. The Corporation competes with other banks, savings and loan associations, mutual savings banks, finance companies, mortgage banking companies, credit unions and investment companies. In addition, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. Many of the Corporation's competitors have fewer regulatory constraints and some have lower cost structures. Also, the potential need to adapt to industry changes in information technology systems, on which the Corporation and financial services industry are highly dependent, could present operational issues and require capital spending.

* Acts or threats of terrorism and political or military actions taken by the United States or other governments could adversely affect general economic or industry conditions.

Geopolitical conditions may also affect the Corporation's earnings. Acts or threats or terrorism and political or military actions taken by the United States or other governments in response to terrorism, or similar activity, could adversely affect general economic or industry conditions.

CORPORATION RISK FACTORS

* The Corporation's allowance for loan losses may not be adequate to cover actual losses.

The Corporation maintains an allowance for loan losses to provide for loan defaults and non-performance. The allowance for loan losses represents management's estimate of probable losses inherent in the Corporation's loan portfolio. The Corporation's allowance consists of three components: probable losses estimated from individual reviews of specific loans, probable losses estimated from historical loss rates, and probable losses resulting from economic, environmental, qualitative or other deterioration above and beyond what is reflected in the first two components of the allowance. The process for determining the adequacy of the allowance for loan losses is critical to our financial results. It requires management to make difficult, subjective and complex judgments, as a result of the need to make estimates about the effect of matters that are uncertain. Therefore, the allowance for loan losses, considering current factors at the time, including economic conditions and ongoing internal and external examination processes, will increase or decrease as deemed necessary to ensure the allowance for loan losses remains adequate. In addition, the allowance as a percentage of charge-offs and nonperforming loans will change at different points in time based on credit performance, loan mix and collateral values.

* The Corporation may suffer losses in its loan portfolio despite its underwriting practices.

The Corporation seeks to mitigate the risks inherent in its loan portfolio by adhering to specific underwriting practices. The Corporation's strategy for credit risk management includes conservative credit policies and underwriting criteria for all loans, as well as an overall credit limit for each customer significantly below legal lending limits. The strategy also emphasizes diversification on a geographic, industry and customer level, regular credit quality reviews and management reviews of large credit exposures and loans experiencing deterioration of credit quality. There is a continuous review of the loan portfolio, including an internally administered loan "watch" list and an independent loan review. The evaluation takes into consideration identified credit problems, as well as the possibility of losses inherent in the loan portfolio that are not specifically identified. Although the Corporation believes that its underwriting criteria are appropriate for the various kinds of loans it makes, the Corporation may incur losses on loans due to the factors previously discussed.

* Because the nature of the financial services business involves a high volume of transactions, the Corporation faces significant operational risks.

The Corporation operates in diverse markets and relies on the ability of its employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from the Corporation's operations, including, but not limited to, the risk of fraud by employees or persons outside of the Corporation, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements and business continuation and disaster recovery. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, the Corporation could suffer financial loss, face regulatory action and suffer damage to its reputation.

* A natural disaster could harm the Corporation's business.

Natural disasters could harm the Corporation's operations directly through interference with communications, as well as through the destruction of facilities and operational, financial and management information systems. These events could prevent the Corporation from gathering deposits, originating loans and processing and controlling its flow of business.

* The Corporation faces systems failure risks as well as security risks, including "hacking" and "identity theft."

The computer systems and network infrastructure the Corporation uses could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect computer equipment against damage from fire, power loss or telecommunication failure. Any damage or failure that causes an interruption in our operations could adversely affect our business and financial results. In addition, our computer systems and network infrastructure present security risks, and could be susceptible to hacking or identity theft.

* The Corporation relies on dividends from its subsidiaries for its liquidity needs.

The Corporation is a separate and distinct legal entity from its bank and non-bank subsidiaries. The Corporation receives substantially all of its cash from dividends paid by its subsidiaries. These dividends are the principal source of funds to pay dividends on the Corporation's stock and interest and principal on its debt. Various federal and state laws and regulations limit the amount of dividends that our bank subsidiaries may pay to the Corporation.

* The Corporation's reported financial results depend on management's selection of accounting methods and certain assumptions and estimates.

The Corporation's accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. The Corporation's management must exercise judgment in selecting and applying many of these accounting policies and methods, so they comply with Generally Accepted Accounting Principles and reflect management's judgment of the most appropriate manner to report the Corporation's financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in the Corporation's reporting materially different results than would have been reported under a different alternative. Certain accounting policies are critical to presenting the Corporation's financial condition and results, and require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include: the allowance for loan losses; the valuation of investment securities; the valuation of goodwill and intangible assets; and pension accounting. Because of the uncertainty of estimates involved in these matters, the Corporation may be required to do one or more of the following: significantly increase the allowance for loan losses and/or sustain loan losses that are significantly higher than the reserve provided; recognize significant provision for impairment of its investment securities; recognize significant impairment on its goodwill and intangible assets; or significantly increase its pension liability. For more information, refer to pages 3 through 6 of the First Merchants Corporation - Annual Report 2005 under the caption "Critical Accounting Policies."

* Changes in accounting standards could materially impact the Corporation's financial statements.

From time to time, the Financial Accounting Standards Board changes the financial accounting and reporting standards that govern the preparation of the Corporation's financial statements. These changes can be hard to predict and can materially impact how the Corporation records and reports its financial condition and results of operations. In some cases, the Corporation could be required to apply a new or revised standard retroactively, resulting in the Corporation's restating prior period financial statements.

* Significant legal actions could subject the Corporation to substantial uninsured liabilities.

The Corporation is from time to time subject to claims related to its operations. These claims and legal actions, including supervisory actions by the Corporation's regulators, could involve large monetary claims and significant defense costs. To protect itself from the cost of these claims, the Corporation maintains insurance coverage in amounts and with deductibles that it believes are appropriate for its operations. However, the Corporation's insurance coverage may not cover all claims against the Corporation or continue to be available to the Corporation at a reasonable cost. As a result, the Corporation may be exposed to substantial uninsured liabilities, which could adversely affect the Corporation's results of operations and financial condition.

* Negative publicity could damage the Corporation's reputation and adversely impact its business and financial results.

Reputation risk, or the risk to the Corporation's earnings and capital from negative publicity, is inherent in the Corporation's business. Negative publicity can result from the Corporation's actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and actions taken by government regulators and community organizations in response to those activities. Negative publicity can adversely affect the Corporation's ability to keep and attract customers and can expose the Corporation to litigation and regulatory action. Although the Corporation takes steps to minimize reputation risk in dealing with customers and other constituencies, the Corporation is inherently exposed to this risk.

* Acquisitions may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated and may result in unforeseen integration difficulties.

The Corporation regularly explores opportunities to acquire banks, financial institutions, or other financial services businesses or assets. The Corporation cannot predict the number, size or timing of acquisitions. Difficulty in integrating an acquired business or company may cause the Corporation not to realize expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from the acquisition. The integration could result in higher than expected deposit attrition (run-off), loss of key employees, disruption of the Corporation's business or the business of the acquired company, or otherwise adversely affect the Corporation's ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. Also, the negative effect of any divestitures required by regulatory authorities in acquisitions or business combinations may be greater than expected.

* The Corporation's stock price can be volatile.

The Corporation's stock price can fluctuate widely in response to a variety of factors, including: actual or anticipated variations in the Corporation's quarterly operating results; recommendations by securities analysts; significant acquisitions or business combinations; strategic partnerships, joint ventures or capital commitments; operating and stock price performance of other companies that investors deem comparable to the Corporation; new technology used or services offered by the Corporation's competitors; news reports relating to trends, concerns and other issues in the banking and financial services industry, and changes in government regulations. General market fluctuations, industry factors and general economic and political conditions and events, including terrorist attacks, economic slowdowns or recessions, interest rate changes, credit loss trends or currency fluctuations, could also cause the Corporation's stock price to decrease, regardless of the Corporation's operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES.

The headquarters of the Corporation and First Merchants are located in a five-story building at 200 East Jackson Street, Muncie, Indiana. The building is owned by First Merchants.

The Corporation's affiliate banks conduct business through numerous facilities owned and leased by the respective affiliate banks. Of the 65 banking offices operated by the Corporation's affiliate banks, 51 are owned by the respective banks and 14 are leased from non-affiliated third parties.

None of the properties owned by the Corporation's affiliate banks are subject to any major encumbrances. The net investment of the Corporation and subsidiaries in real estate and equipment at December 31, 2005 was $39,417,000.

ITEM 3. LEGAL PROCEEDINGS.

There is no pending legal proceeding, other than ordinary routine litigation incidental to the business of the Corporation or its subsidiaries, of a material nature to which the Corporation or its subsidiaries is a party or of which any of their properties are subject. Further, there is no material legal proceeding in which any director, officer, principal shareholder, or affiliate of the Corporation, or any associate of any such director, officer or principal shareholder, is a party, or has a material interest, adverse to the Corporation or any of its subsidiaries.

None of the routine legal proceedings, individually or in the aggregate, in which the Corporation or its affiliates are involved are expected to have a material adverse impact on the financial position or the results of operations of the Corporation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted during the fourth quarter of 2005 to a vote of security holders, through the solicitation of proxies or otherwise.

SUPPLEMENTAL INFORMATION - EXECUTIVE OFFICERS OF THE REGISTRANT.

The names, ages, and positions with the Corporation and subsidiary banks of all executive officers of the Corporation and all persons chosen to become executive officers are listed below. The officers are elected by the Board of Directors of the Corporation for a term of one (1) year or until the election of their successors. There are no arrangements between any officer and any other person pursuant to which he was selected as an officer.

Name and Age	Offices with the Corporation And Subsidiary Banks	Principal Occupation During Past Five Years
Michael L. Cox 61	President, Chief Executive Officer, Corporation	Chief Executive Officer of the Corporation since April 1999; President First Merchants from April 1999 to September 2000; President and Chief Operating Officer, Corporation since August 1998 and from May 1994 to April 1999 respectively; President and Chief Operating Officer, First Merchants from April, 1996 to April 1999; Director, Corporation and First Merchants since December, 1984.
Michael C. Rechin 47	Executive Vice President and Chief Operating Officer, Corporation	Executive Vice President and Chief Operating Officer, Corporation since November 2005; Executive Vice President, Corporate Banking National City Bank from 1995 to November 2005.
Mark K. Hardwick 35	Executive Vice President and Chief Financial Officer, Corporation	Executive Vice President and Chief Financial Officer of the Corporation since December 2005; Senior Vice President and Chief Financial Officer from April 2002 to December 2005; Corporate Controller, Corporation from November 1997 to April 2002.
Robert R. Connors 56	Senior Vice President, Chief Information Officer, Corporation and First Merchants	Senior Vice President and Chief Information Officer of the Corporation and First Merchants since January 2006; Senior Vice President of Operations and Technology, Corporation and First Merchants from August 2002 to January 2006; Senior Vice President of Operations and Compliance Officer at First Internet Bank of Indiana from 1999 to 2002.
Shawn R. Blackburn 52	Senior Vice President of Administrative Services, Corporation	Senior Vice President of Administrative Services, Corporation since May 2005; Senior National Bank Examiner, Office of Comptroller of the Currency from 1978 to 2005.
Kimberly J. Ellington 46	Senior Vice President and Director of Human Resources, Corporation	Senior Vice President and Director of Human Resources since 2004; Vice President and Director of Human Resources, Corporation from 1999 to 2004.
Jeffrey B. Lorentson 42	First Vice President and Corporate Controller, Corporation	First Vice President and Corporate Controller, Corporation since March 2003; Vice President and Corporate Controller, Corporation from April 2002 to March 2003; Senior Manager, Ernst & Young, LLP from 1998 to 2002.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The information on pages 52 and 53 of the First Merchants Corporation - Annual Report 2005 under the captions "Annual Meeting, Stock Price and Dividend Information" and "Common Stock Listing", is expressly incorporated herein by reference.

The following table presents information relating to the Corporation's purchases of its equity securities during the quarter ended December 31, 2005, as follows(1):

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF BOARD AUTHORIZATION(1)	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER BOARD AUTHORIZATION(1)
October 1-31, 2005	0	0	0	0
November 1-30, 2005	105,000(2)	25.60	0	0
December 1-31, 2005	0	0	0	0

(1) On February 8, 2005, the Corporation's Board authorized management to repurchase up to 250,000 shares of the Corporation's Common Stock. On June 14, 2005 and August 9, 2005, the Corporation's Board authorized management to repurchase addtional shares of the Corporation's Common Stock, totaling 6,500 and 243,500 shares, respectively. These authorizations were not publicly announced and expire February 14, 2006. There were 138,500 remaining shares that may yet be purchased pursuant to such authorizations as of December 31, 2005.

(2) These shares were purchased in open-market transactions pursuant to the Board's authorization to repurchase shares.

The following table presents information relating to securities authorized under equity compensation plans.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensations plans (excluding securities reflected in first column)
Equity compensation plans approved by stockholders	1,060,108	$ 23.37	400,000 (1)
Equity compensation plans not approved by stockholders(2)	44,679	21.18	
Total	1,104,787	$ 23.28	400,000 (1)

(1) This number does not include shares remaining available for future issuance under the 1999 Long-term Equity Incentive Plan, which was approved by the Corporation's shareholders at the 1999 annual meeting. The aggregate number of shares that are available for grants under that Plan in any calendar year is equal to the sum of: (a) 1% of the number of common shares of the Corporation outstanding as of the last day of the preceding calendar year; plus (b) the number of shares that were available for grants, but not granted, under the Plan in any previous year; but in no event will the number of shares available for grants in any calendar year exceed 1 1/2% of the number of common shares of the Corporation outstanding as of the last day of the preceding calendar year. The 1999 Long-term Equity Incentive Plan will expire in 2009.

(2) The only plan reflected above that was not approved by the Corporation's stockholders relates to certain First Merchants Corporation Stock Option Agreements ("Agreements"). These Agreements provided for non-qualified stock options of the common stock of the Corporation, awarded between 1995 and 2002 to each director of First Merchants Bank, National Association (the "Bank") who, on the date of the grants: (a) were serving as a director of the Bank; (b) were not an employee of the Corporation, the Bank, or any of the Corporation's other affiliated banks or non-bank subsidiaries; and (c) were not serving as a director of the Corporation. The exercise price of the shares was equal to the fair market value of the shares upon the grant of the option. Options became 100 percent vested when granted and are fully exercisable six months after the date of the grant, for a period of ten years.

ITEM 6. SELECTED FINANCIAL DATA.

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The information on page 2 of the First Merchants Corporation - Annual Report 2005 under the caption "Five-Year Summary of Selected Financial Data", is expressly incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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The information on pages 3 through 18 of the First Merchants Corporation - Annual Report 2005 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", is expressly incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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The information on pages 12 through 14 of the First Merchants Corporation - Annual Report 2005 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" within the section "Interest Sensitivity and Disclosures About Market Risk", is expressly incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Pages 19 through 51 of the First Merchants Corporation - Annual Report 2005, are expressly incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

In connection with its audits for the two most recent fiscal years ended December 31, 2005, there have been no disagreements with the Corporation's independent registered public accounting firm on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure, nor have there been any changes in accountants.

ITEM 9A. CONTROLS AND PROCEDURES

At the end of the period covered by this report (the "Evaluation Date"), the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of it's disclosure controls and procedures pursuant to Rule 13a-15(b) and 15d-15(b) of the Securities Exchange Act of 1934 ("Exchange Act"). Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Corporation reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Corporation's internal control over financial reporting is designed to provide reasonable assurance to the Corporation's management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management has determined that the Corporation's internal control over financial reporting as of December 31, 2005 is effective based on the specified criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 has been audited by BKD, LLP, an independent registered public accounting firm, as stated in their report, which appears on the next page.

There have been no changes in the Corporation's internal controls over financial reporting identified in connection with the evaluation referenced above that occurred during the Corporation's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders
First Merchants Corporation
Muncie, Indiana

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that First Merchants Corporation maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that First Merchants Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, First Merchants Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of First Merchants Corporation and our report dated January 27, 2006, expressed an unqualified opinion thereon.

BKD, LLP

Indianapolis, Indiana
January 27, 2006

ITEM 9B. OTHER INFORMATION

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None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information in the Corporation's Proxy Statement dated March 2, 2006 furnished to its stockholders in connection with an annual meeting to be held April 13, 2006 (the "2006 Proxy Statement"), under the captions "ELECTION OF DIRECTORS", "COMMITTEES OF THE BOARD" and "SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE", is expressly incorporated herein by reference. The information required under this item relating to executive officers is set forth in Part I, "Supplemental Information - Executive Officers of the Registrant" of this annual report on Form 10-K and is expressly incorporated herein by reference.

The Corporation has adopted a Code of Ethics that applies to its Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Controller and Treasurer. It is part of the Corporation's Code of Business Conduct, which applies to all employees and directors of the Corporation and its affiliates. A copy of the Code of Ethics may be obtained, free of charge, by writing to First Merchants Corporation at 200 East Jackson Street, Muncie, IN 47305. In addition, the Code of Ethics is maintained on the Corporation's web site, which can be accessed at http://www.firstmerchants.com.

ITEM 11. EXECUTIVE COMPENSATION.

The information in the Corporation's 2006 Proxy Statement, under the captions, "COMPENSATION OF DIRECTORS", "COMPENSATION OF EXECUTIVE OFFICERS", "COMMITTEES OF THE BOARD-Compensation and Human Resources Committee Interlocks and Insider Participation" and "PERFORMANCE GRAPH" is expressly incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information in the Corporation's 2006 Proxy Statement, under the caption, "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" is expressly incorporated herein by reference. The information required under this item relating to equity compensation plans is set forth in Part II, Item 5 of this annual report on Form 10-K under the table entitled "Equity Compensation Plan Information" and is expressly incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information in the Corporation's 2006 Proxy Statement, under the caption "INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS," is expressly incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information in the Corporation's 2006 Proxy Statement, under the caption "INDEPENDENT PUBLIC ACCOUNTANTS", is expressly incorporated herein by reference.

PART IV

ITEM 15. FINANCIAL STATEMENT SCHEDULES AND EXHIBITS.

(a) 1. Financial Statements:
- Independent accountants' report
- Consolidated balance sheets at December 31, 2005 and 2004
- Consolidated statements of income, years ended December 31, 2005, 2004 and 2003
- Consolidated statements of comprehensive income, years ended December 31, 2005, 2004 and 2003
- Consolidated statements of stockholders' equity, years ended December 31, 2005, 2004 and 2003
- Consolidated statements of cash flows, years ended December 31, 2005, 2004 and 2003
- Notes to consolidated financial statements

(a) 2. Financial statement schedules:
All schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or related notes.

(a) 3. Exhibits:

Exhibit No:	Description of Exhibits:
3a	First Merchants Corporation Articles of Incorporation. (Incorporated by reference to registrant's Form 10-Q for quarter ended June 30, 1999)
3b	Bylaws of First Merchants Corporation (Incorporated by reference to registrant's Form 10-K for year ended December 31, 2004)
4.1	Certificate of Trust of First Merchants Capital Trust I dated December 12, 2001 (3)
4.2	Amended and Restated Trust Agreement of First Merchants Capital Trust I dated April 17, 2002 (3)
4.3	Agreement as to Expenses and Liabilities dated April 17, 2002 (3)
4.4	Cumulative Trust Preferred Security Certificate (3)
4.5	Preferred Securities Guarantee Agreement dated April 17, 2002 (3)
4.6	Indenture dated April 17, 2002 (3)
4.7	First Supplemental Indenture dated April 17, 2002 (3)
4.8	8.75% Junior Subordinated Debenture due June 30, 2002 (3)

10a	First Merchants Corporation Senior Management Incentive Compensation Program, as amended. (Incorporated by reference to the registrant's Form 10-Q for the quarter ended June 30, 2005)(1)
10b	First Merchants Corporation 1994 Stock Option Plan. (Incorporated by reference to registrant's Form 10-K for year ended December 31, 1993)(1)
10c	First Merchants Corporation Change of Control Agreement, as amended, with Mark K. Hardwick dated February 14, 2006. (Incorporated by reference to registrant's Form 8-K filed on March 9, 2006)(1)
10d	First Merchants Corporation Change of Control Agreement with Michael C. Rechin dated December 13, 2005. (Incorporated by reference to registrant's Form 8-K filed on December 19, 2005)(1)
10e	First Merchants Corporation Change of Control Agreement with Shawn R. Blackburn dated May 2, 2005. (Incorporated by reference to registrant's Form 8-K filed on May 4, 2005)(1)
10f	First Merchants Corporation Change of Control Agreement with Robert R. Connors dated August 26, 2002. (Incorporated by reference to registrant's Form 10-Q for quarter ended September 30, 2002)(1)
10g	First Merchants Corporation Change of Control Agreement with Michael L. Cox dated February 11, 2003. (Incorporated by reference to registrant's Form 10-Q for quarter ended March 31, 2003)(1)
10h	First Merchants Corporation Change of Control Agreement with Kimberly J. Ellington dated January 1, 2005.(2)
10i	First Merchants Corporation Change of Control Agreement with Jeffrey B. Lorentson dated January 1, 2004.(2)
10j	First Merchants Corporation Supplemental Executive Retirement Plan and amendments thereto. (Incorporated by reference to registrant's Form 10-K for year ended December 31, 1997)(1)
10k	First Merchants Corporation 1999 Long-Term Equity Incentive Plan, as amended. (Incorporated by reference to registrant's Form 10-Q for quarter ended September 30, 2004) (1)
13	First Merchants Corporation - Annual Report 2005 (except for the pages and information expressly incorporated by reference in this Form 10-K, the First Merchants Corporation - Annual Report 2005 is provided solely for the information of the Securities and Exchange Commission and is not deemed "filed" as part of this Form 10-K)(2)
21	Subsidiaries of Registrant(2)
23	Consent of Independent Registered Public Accounting Firm(2)
24	Limited Power of Attorney(2)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002(2)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002(2)
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(2)
99.1	Financial statements and independent registered public accounting firm's report for First Merchants Corporation Employee Stock Purchase Plan (See Exhibit 13 to this Form 10-K)(2)

(1) Management contract or compensatory plan.
(2) Filed here within.
(3) Incorporated by reference to the registrant's Form 8-K filed on April 19, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 16th day of March, 2006.

FIRST MERCHANTS CORPORATION

By /s/ Michael L.Cox

Michael L. Cox, President
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities indicated, on this 16th day of March, 2006.

/s/ Michael L. Cox	Michael L. Cox	President and Chief Executive Officer (Principal Executive Officer)
/s/ Mark K. Hardwick	Mark K. Hardwick	Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)
/s/ Robert M. Smitson*	Robert M. Smitson	Director
/s/ Michael L. Cox	Michael L. Cox	Director
/s/ Michael C. Rechin*	Michael C. Rechin	Director
/s/ Barry J. Hudson*	Barry J. Hudson	Director
/s/ James F. Ault*	James F. Ault	Director
/s/ Robert T. Jeffares*	Robert T. Jeffares	Director
/s/Richard A. Boehning*	Richard A. Boehning	Director
/s/ Thomas D. McAuliffe*	Thomas D. McAuliffe	Director
/s/ Thomas B. Clark*	Thomas B. Clark	Director
/s/ Charles E. Schalliol*	Charles E. Schalliol	Director
/s/ Roderick English*	Roderick English	Director
	Jean L. Wojtowicz	Director
/s/ Dr. Jo Ann M. Gora*	Dr. Jo Ann M. Gora	Director

* By Mark K. Hardwick as Attorney-in Fact pursuant to a Limited Power of Attorney executed by the directors listed above, which Power of Attorney is being filed with the Securities and Exchange Commission as an exhibit hereto.

By /s/ Mark K. Hardwick

Mark K. Hardwick
As Attorney-in-Fact
March 16, 2006

INDEX TO EXHIBITS

(a) 3. Exhibits:

Exhibit No:	Description of Exhibits:
3a	First Merchants Corporation Articles of Incorporation. (Incorporated by reference to registrant's Form 10-Q for quarter ended June 30, 1999)
3b	Bylaws of First Merchants Corporation (Incorporated by reference to registrant's Form 10-K for year ended December 31, 2004)
4.1	Certificate of Trust of First Merchants Capital Trust I dated December 12, 2001 (3)
4.2	Amended and Restated Trust Agreement of First Merchants Capital Trust I dated April 17, 2002 (3)
4.3	Agreement as to Expenses and Liabilities dated April 17, 2002 (3)
4.4	Cumulative Trust Preferred Security Certificate (3)
4.5	Preferred Securities Guarantee Agreement dated April 17, 2002 (3)
4.6	Indenture dated April 17, 2002 (3)
4.7	First Supplemental Indenture dated April 17, 2002 (3)
4.8	8.75% Junior Subordinated Debenture due June 30, 2002 (3)
10a	First Merchants Corporation Senior Management Incentive Compensation Program, as amended. (Incorporated by reference to the registrant's Form 10-Q for the quarter ended June 30, 2005)(1)
10b	First Merchants Corporation 1994 Stock Option Plan. (Incorporated by reference to registrant's Form 10-K for year ended December 31, 1993)(1)
10c	First Merchants Corporation Change of Control Agreement, as amended, with Mark K. Hardwick dated February 14, 2006. (Incorporated by reference to registrant's Form 8-K filed on March 9, 2006)(1)

10d	First Merchants Corporation Change of Control Agreement with Michael C. Rechin dated December 13, 2005. (Incorporated by reference to registrant's Form 8-K filed on December 19, 2005)(1)
10e	First Merchants Corporation Change of Control Agreement with Shawn R. Blackburn dated May 2, 2005. (Incorporated by reference to registrant's Form 8-K filed on May 4, 2005)(1)
10f	First Merchants Corporation Change of Control Agreement with Robert R. Connors dated August 26, 2002. (Incorporated by reference to registrant's Form 10-Q for quarter ended September 30, 2002)(1)
10g	First Merchants Corporation Change of Control Agreement with Michael L. Cox dated February 11, 2003. (Incorporated by reference to registrant's Form 10-Q for quarter ended March 31, 2003)(1)
10h	First Merchants Corporation Change of Control Agreement with Kimberly J. Ellington dated January 1, 2005.(2)
10i	First Merchants Corporation Change of Control Agreement with Jeffrey B. Lorentson dated January 1, 2004.(2)
10j	First Merchants Corporation Supplemental Executive Retirement Plan and amendments thereto. (Incorporated by reference to registrant's Form 10-K for year ended December 31, 1997)(1)
10k	First Merchants Corporation 1999 Long-Term Equity Incentive Plan, as amended. (Incorporated by reference to registrant's Form 10-Q for quarter ended September 30, 2004) (1)
13	First Merchants Corporation - Annual Report 2005 (except for the pages and information expressly incorporated by reference in this Form 10-K, the First Merchants Corporation - Annual Report 2005 is provided solely for the information of the Securities and Exchange Commission and is not deemed "filed" as part of this Form 10-K)(2)
21	Subsidiaries of Registrant(2)
23	Consent of Independent Registered Public Accounting Firm(2)
24	Limited Power of Attorney(2)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002(2)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002(2)
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(2)
99.1	Financial statements and independent registered public accounting firm's report for First Merchants Corporation Employee Stock Purchase Plan (See Exhibit 13 to this Form 10-K)(2)

(1) Management contract or compensatory plan.
(2) Filed here within.
(3) Incorporated by reference to the registrant's Form 8-K filed on April 19, 2002.

EXHIBIT-10h

First Merchants Corporation Change of Control Agreement with Kimberly J. Ellington dated January 1, 2005.

CHANGE OF CONTROL AGREEMENT

This Agreement is made and entered into as of January 1, 2005, by and between First Merchants Corporation, an Indiana corporation (hereinafter referred to as "Corporation"), with its principal office located at 200 East Jackson Street, Muncie, Indiana, and Kimberly J. Ellington (hereinafter referred to as "Executive"), of Yorktown, Indiana.

WHEREAS, the Corporation considers the continuance of proficient and experienced management to be essential to protecting and enhancing the best interests of the Corporation and its shareholders; and

WHEREAS, the Corporation desires to assure the continued services of the Executive on behalf of the Corporation; and

WHEREAS, the Corporation recognizes that if faced with a proposal for a Change of Control, as hereinafter defined, the Executive will have a significant role in helping the Board of Directors assess the options and advising the Board of Directors on what is in the best interests of the Corporation and its shareholders; and it is necessary for the Executive to be able to provide this advice and counsel without being influenced by the uncertainties of the Executive's own situation; and

WHEREAS, the Corporation desires to provide fair and reasonable benefits to the Executive on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings herein contained and the continued employment of the Executive by the Corporation as its Senior Vice President and Director of Human Resources, the Corporation and the Executive, each intending to be legally bound, covenant and agree as follows:

1. Term of Agreement.

This Agreement shall continue in effect through December 31, 2005; provided, however, that commencing on December 31, 2005 and each December 31 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than October 31, 2005 or October 31 immediately preceding any December 31 thereafter, the Corporation shall have given the Executive notice that it does not wish to extend this Agreement; and provided further, that if a Change of Control of the Corporation, as defined in Section 2, shall have occurred during the original or extended term of this Agreement, this Agreement shall continue in effect for a period of not less than twenty-four (24) months beyond the month in which such Change of Control occurred.

2. Definitions.

For purposes of this Agreement, the following definitions shall apply:

A. Cause: "Cause" shall mean:

(1) professional incompetence;

(2) willful misconduct;

(3) personal dishonesty;

(4) breach of fiduciary duty involving personal profit;

(5) intentional failure to perform stated duties;

(6) willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist orders; and

(7) any intentional material breach of any term, condition or covenant of this Agreement.

(B) Change of Control: "Change of Control" shall mean:

(1) any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 ["Exchange Act"]), other than the Corporation, is or becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly of securities of the Corporation representing twenty-five percent (25%) or more of the combined voting power of the Corporation's then outstanding securities;

(2) persons constituting a majority of the Board of Directors of the Corporation were not directors of the Corporation for at least the twenty-four (24) preceding months;

(3) the stockholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation, other than (a) a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Corporation or such surviving entity outstanding immediately after such a merger or consolidation, or (b) a merger or consolidation effected to implement a recapitalization of the Corporation (or similar transaction) in which no person acquires fifty percent (50%) or more of the combined voting power of the Corporation's then outstanding securities; or

(4) the stockholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all of the Corporation's assets.

(C) Date of Termination: "Date of Termination" shall mean the date stated in the Notice of Termination (as hereinafter defined) or thirty (30) days from the date of delivery of such notice, as hereinafter defined, whichever comes first.

(D) Disability: "Disability" shall mean the definition of such term as used in the disability policy then in effect for the Corporation, and a determination of full disability by the Corporation; provided that in the event there is no disability insurance then in force, "disability" shall mean incapacity due to physical or mental illness which will have caused the Executive to have been unable to perform his duties with the Corporation on a full time basis for one hundred eighty (180) consecutive calendar days.

(E) Notice of Termination: "Notice of Termination" shall mean a written notice, communicated to the other parties hereto, which shall indicate the specific termination provisions of this Agreement relied upon and set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provisions so indicated.

(F) Retirement: "Retirement" shall mean termination of employment by the Executive in accordance with the Corporation's normal retirement policy generally applicable to its salaried employees in effect at the time of a Change of Control.

3. Termination.

(A) General. If any of the events described in Section 2 constituting a Change in Control of the Corporation shall have occurred, the Executive shall be entitled to the benefits described in Section 4 upon the subsequent termination of the Executive's employment during the term of this Agreement, unless such termination is (a) because of the death or Disability of the Executive, (b) by the Corporation for Cause, or (c) by the Executive other than on account of Constructive Termination (as hereinafter defined).

(B) If, following a Change of Control, the Executive's employment shall be terminated for Cause, the Corporation shall pay him his salary through the Date of Termination at the rate in effect on the date of the Notice of Termination, and the Corporation shall have no further obligations under this Agreement. If, following a Change of Control, the Executive's employment shall be terminated as a result of death or Disability, compensation to the Executive shall be made pursuant to the Corporation's then existing policies on death or Disability, and the Corporation shall have no further obligations under this Agreement. If, following a Change of Control, the Executive's employment is terminated by and at the request of the Executive as a result of Retirement, compensation to the Executive shall be made pursuant to the Corporation's normal retirement policy generally applicable to its salaried employees at the time of the Change of Control, and the Corporation shall have no further obligations under this Agreement.

(C) Constructive Termination. The Executive shall be entitled to terminate his employment upon the occurrence of Constructive Termination. For purposes of this Agreement, "Constructive Termination" shall mean, without the Executive's express written consent, the occurrence, after a Change of Control of the Corporation, of any of the following circumstances:

(1) the assignment to the Executive of any duties inconsistent (unless in the nature of a promotion) with the position in the Corporation that the Executive held immediately prior to the Change of Control of the Corporation, or a significant adverse reduction or alteration in the nature or status of the Executive's position, duties or responsibilities or the conditions of the Executive's employment from those in effect immediately prior to such Change of Control;

(2) a reduction in the Executive's annual base salary, as in effect immediately prior to the Change of Control of the Corporation or as the same may be adjusted from time to time, except for across-the-board salary reductions similarly affecting all management personnel of the Corporation;

(3) the Corporation requires the Executive to be relocated anywhere other than its offices in Muncie, Indiana;

(4) the taking of any action to deprive the Executive of any material fringe benefit enjoyed by him at the time of the Change of Control, or the failure to provide him with the number of paid vacation days to which he is entitled on the basis of years of service with the Corporation and in accordance with the Corporation's normal vacation policy in effect at the time of the Change of Control;

(5) the failure to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Corporation's life insurance, medical, health and accident, or disability plans in which the Executive was participating at the time of the Change of Control of the Corporation, or the taking of any action which would directly or indirectly materially reduce any of such benefits; or

(6) the failure of the Corporation to continue this Agreement in effect, or to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5 hereof.

4. Compensation Upon Termination.

Following a Change of Control, if his employment by the Corporation shall be terminated by the Executive on account of Constructive Termination or by the Corporation other than for Cause, death, Disability, or Retirement (by and at the request of the Executive), then the Executive shall be entitled to the benefits provided below:

(A) No later than the fifth day following the Date of Termination, the Corporation shall pay to the Executive his full base salary through the Date of Termination, at the rate in effect at the time Notice of Termination is given, plus all other amounts to which the Executive is entitled under any incentive, bonus or other compensation plan of the Corporation in effect at the time such payments are due;

(B) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, no later than the fifth day following the Date of Termination, the Corporation shall pay to the Executive a lump sum severance payment, in cash, equal to two (2.00) times the sum of (a) the Executive's annual base salary rate as in effect on the date of the Notice of Termination, and (b) the largest bonus received by the Executive during the two (2) years immediately preceding the Date of Termination under the Corporation's Management Incentive Plan covering the Executive;

(C) During the period beginning with the Executive's Date of Termination and continuing until the earlier of (a) the second anniversary of such Date of Termination, or (b) Executive's sixty-fifth (65th) birthday, the Corporation shall arrange to provide the Executive with life, disability, accident and health insurance benefits substantially similar to those which the Executive was receiving immediately prior to the Notice of Termination and shall pay the same percentage of the cost of such benefits as the Corporation was paying on the Executive's behalf on the date of such Notice;

(D) In lieu of shares of common stock of the Corporation ("Corporation Shares") issuable upon the exercise of outstanding options ("Options"), if any, granted to the Executive under any Corporation stock option plan (which Options shall be cancelled upon the making of the payment referred to below), the Executive shall receive an amount in cash equal to the product of (a) the excess of the higher of the closing price of Corporation Shares as reported on the NASDAQ National Market System, the American Stock Exchange or the New York Stock Exchange, wherever listed, on or nearest the Date of Termination or the highest per share price for Corporation Shares actually paid in connection with any Change of Control of the Corporation, over the per share exercise price of each Option held by the Executive (whether or not then fully exercisable), times (b) the number of Corporation Shares covered by each such Option;

(E) If the payments or benefits, if any, received or to be received by the Executive (whether under this Agreement or under any other plan, arrangement, or agreement between the Executive and the Corporation), in connection with termination or Constructive Termination of the Executive's employment following a Change of Control, constitute an "excess parachute payment" within the meaning of ss.280G of the Internal Revenue Code ("Code"), the Corporation shall pay to the Executive, no later than the fifth day following the Date of Termination, an additional amount (as determined by the Corporation's independent public accountants) equal to the excise tax, if any, imposed on the "excess parachute payment" under ss.4999 of the Code; provided, however, if the amount of such excise tax is finally determined to be more or less than the amount paid to the Executive hereunder, the Corporation (or the Executive if the finally determined amount is less than the original amount paid) shall pay the difference between the amount originally paid and the finally determined amount to the other party no later than the fifth day following the date such final determination is made;

(F) The Corporation shall pay to the Executive all reasonable legal fees and expenses incurred by the Executive as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement), unless the decision-maker in any proceeding, contest, or dispute arising hereunder makes a formal finding that the Executive did not have a reasonable basis for instituting such proceeding, contest, or dispute;

(G) The Corporation shall provide the Executive with individual out-placement services in accordance with the general custom and practice generally accorded to an executive of the Executive's position.

5. Successors; Binding Agreement.

(A) The Corporation shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if no such succession had taken place. Failure of the Corporation to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Corporation in the same amount and on the same terms to which the Executive would be entitled hereunder if the Executive terminates his employment on account of Constructive Termination following a Change of Control of the Corporation, except that for the purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "the Corporation" shall mean the Corporation and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement, by operation of law or otherwise.

(B) This Agreement shall inure to the benefit of and be enforceable by the Executive and his personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable to the Executive hereunder had the Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the devisee, legatee or other designee or, if there is no such designee, to his estate.

6. Miscellaneous.

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Corporation. No waiver by either party hereto at the time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Indiana without regard to its conflicts of law principles. All references to a section of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such section. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Corporation under Section 4 shall survive the expiration of the term of this Agreement.

7. Validity.

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

8. Counterparts.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

9. Arbitration.

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three (3) arbitrators in Muncie, Indiana in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

10. Entire Agreement.

This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto; and any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and cancelled.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by their duly authorized officers, and the Executive has hereunder subscribed his name, as of the day and year first above written.

"CORPORATION"	"EXECUTIVE"
FIRST MERCHANTS CORPORATION	
By ______________________________	By ______________________________
Michael L. Cox, President & Chief Executive Officer	Kimberly J. Ellington

EXHIBIT-10i

First Merchants Corporation Change of Control Agreement with Jeffrey B. Lorentson dated January 1, 2004.

CHANGE OF CONTROL AGREEMENT

This Agreement is made and entered into as of January 1, 2004, by and between First Merchants Corporation, an Indiana corporation (hereinafter referred to as "Corporation"), with its principal office located at 200 East Jackson Street, Muncie, Indiana, and Jeffrey B. Lorentson (hereinafter referred to as "Executive"), of Fishers, Indiana.

WHEREAS, the Corporation considers the continuance of proficient and experienced management to be essential to protecting and enhancing the best interests of the Corporation and its shareholders; and

WHEREAS, the Corporation desires to assure the continued services of the Executive on behalf of the Corporation; and

WHEREAS, the Corporation recognizes that if faced with a proposal for a Change of Control, as hereinafter defined, the Executive will have a significant role in helping the Board of Directors assess the options and advising the Board of Directors on what is in the best interests of the Corporation and its shareholders; and it is necessary for the Executive to be able to provide this advice and counsel without being influenced by the uncertainties of the Executive's own situation; and

WHEREAS, the Corporation desires to provide fair and reasonable benefits to the Executive on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings herein contained and the continued employment of the Executive by the Corporation as its First Vice President and Corporate Controller, the Corporation and the Executive, each intending to be legally bound, covenant and agree as follows:

1. Term of Agreement.

This Agreement shall continue in effect through December 31, 2004; provided, however, that commencing on December 31, 2004 and each December 31 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than October 31, 2004 or October 31 immediately preceding any December 31 thereafter, the Corporation shall have given the Executive notice that it does not wish to extend this Agreement; and provided further, that if a Change of Control of the Corporation, as defined in Section 2, shall have occurred during the original or extended term of this Agreement, this Agreement shall continue in effect for a period of not less than twenty-four (24) months beyond the month in which such Change of Control occurred.

2. Definitions.

For purposes of this Agreement, the following definitions shall apply:

A. Cause: "Cause" shall mean:

(1) professional incompetence;

(2) willful misconduct;

(3) personal dishonesty;

(4) breach of fiduciary duty involving personal profit;

(5) intentional failure to perform stated duties;

(6) willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist orders; and

(7) any intentional material breach of any term, condition or covenant of this Agreement.

(B) Change of Control: "Change of Control" shall mean:

(1) any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 ["Exchange Act"]), other than the Corporation, is or becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly of securities of the Corporation representing twenty-five percent (25%) or more of the combined voting power of the Corporation's then outstanding securities;

(2) persons constituting a majority of the Board of Directors of the Corporation were not directors of the Corporation for at least the twenty-four (24) preceding months;

(3) the stockholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation, other than (a) a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Corporation or such surviving entity outstanding immediately after such a merger or consolidation, or (b) a merger or consolidation effected to implement a recapitalization of the Corporation (or similar transaction) in which no person acquires fifty percent (50%) or more of the combined voting power of the Corporation's then outstanding securities; or

(4) the stockholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all of the Corporation's assets.

(C) Date of Termination: "Date of Termination" shall mean the date stated in the Notice of Termination (as hereinafter defined) or thirty (30) days from the date of delivery of such notice, as hereinafter defined, whichever comes first.

(D) Disability: "Disability" shall mean the definition of such term as used in the disability policy then in effect for the Corporation, and a determination of full disability by the Corporation; provided that in the event there is no disability insurance then in force, "disability" shall mean incapacity due to physical or mental illness which will have caused the Executive to have been unable to perform his duties with the Corporation on a full time basis for one hundred eighty (180) consecutive calendar days.

(E) Notice of Termination: "Notice of Termination" shall mean a written notice, communicated to the other parties hereto, which shall indicate the specific termination provisions of this Agreement relied upon and set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provisions so indicated.

(F) Retirement: "Retirement" shall mean termination of employment by the Executive in accordance with the Corporation's normal retirement policy generally applicable to its salaried employees in effect at the time of a Change of Control.

3. Termination.

(A) General. If any of the events described in Section 2 constituting a Change in Control of the Corporation shall have occurred, the Executive shall be entitled to the benefits described in Section 4 upon the subsequent termination of the Executive's employment during the term of this Agreement, unless such termination is (a) because of the death or Disability of the Executive, (b) by the Corporation for Cause, or (c) by the Executive other than on account of Constructive Termination (as hereinafter defined).

(B) If, following a Change of Control, the Executive's employment shall be terminated for Cause, the Corporation shall pay him his salary through the Date of Termination at the rate in effect on the date of the Notice of Termination, and the Corporation shall have no further obligations under this Agreement. If, following a Change of Control, the Executive's employment shall be terminated as a result of death or Disability, compensation to the Executive shall be made pursuant to the Corporation's then existing policies on death or Disability, and the Corporation shall have no further obligations under this Agreement. If, following a Change of Control, the Executive's employment is terminated by and at the request of the Executive as a result of Retirement, compensation to the Executive shall be made pursuant to the Corporation's normal retirement policy generally applicable to its salaried employees at the time of the Change of Control, and the Corporation shall have no further obligations under this Agreement.

(C) Constructive Termination. The Executive shall be entitled to terminate his employment upon the occurrence of Constructive Termination. For purposes of this Agreement, "Constructive Termination" shall mean, without the Executive's express written consent, the occurrence, after a Change of Control of the Corporation, of any of the following circumstances:

(1) the assignment to the Executive of any duties inconsistent (unless in the nature of a promotion) with the position in the Corporation that the Executive held immediately prior to the Change of Control of the Corporation, or a significant adverse reduction or alteration in the nature or status of the Executive's position, duties or responsibilities or the conditions of the Executive's employment from those in effect immediately prior to such Change of Control;

(2) a reduction in the Executive's annual base salary, as in effect immediately prior to the Change of Control of the Corporation or as the same may be adjusted from time to time, except for across-the-board salary reductions similarly affecting all management personnel of the Corporation;

(3) the Corporation requires the Executive to be relocated anywhere other than its offices in Muncie, Indiana;

(4) the taking of any action to deprive the Executive of any material fringe benefit enjoyed by him at the time of the Change of Control, or the failure to provide him with the number of paid vacation days to which he is entitled on the basis of years of service with the Corporation and in accordance with the Corporation's normal vacation policy in effect at the time of the Change of Control;

(5) the failure to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Corporation's life insurance, medical, health and accident, or disability plans in which the Executive was participating at the time of the Change of Control of the Corporation, or the taking of any action which would directly or indirectly materially reduce any of such benefits; or

(6) the failure of the Corporation to continue this Agreement in effect, or to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5 hereof.

4. Compensation Upon Termination.

Following a Change of Control, if his employment by the Corporation shall be terminated by the Executive on account of Constructive Termination or by the Corporation other than for Cause, death, Disability, or Retirement (by and at the request of the Executive), then the Executive shall be entitled to the benefits provided below:

(A) No later than the fifth day following the Date of Termination, the Corporation shall pay to the Executive his full base salary through the Date of Termination, at the rate in effect at the time Notice of Termination is given, plus all other amounts to which the Executive is entitled under any incentive, bonus or other compensation plan of the Corporation in effect at the time such payments are due;

(B) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, no later than the fifth day following the Date of Termination, the Corporation shall pay to the Executive a lump sum severance payment, in cash, equal to one (1.00) times the sum of (a) the Executive's annual base salary rate as in effect on the date of the Notice of Termination, and (b) the largest bonus received by the Executive during the two (2) years immediately preceding the Date of Termination under the Corporation's Management Incentive Plan covering the Executive;

(C) During the period beginning with the Executive's Date of Termination and continuing until the earlier of (a) the second anniversary of such Date of Termination, or (b) Executive's sixty-fifth (65th) birthday, the Corporation shall arrange to provide the Executive with life, disability, accident and health insurance benefits substantially similar to those which the Executive was receiving immediately prior to the Notice of Termination and shall pay the same percentage of the cost of such benefits as the Corporation was paying on the Executive's behalf on the date of such Notice;

(D) In lieu of shares of common stock of the Corporation ("Corporation Shares") issuable upon the exercise of outstanding options ("Options"), if any, granted to the Executive under any Corporation stock option plan (which Options shall be cancelled upon the making of the payment referred to below), the Executive shall receive an amount in cash equal to the product of (a) the excess of the higher of the closing price of Corporation Shares as reported on the NASDAQ National Market System, the American Stock Exchange or the New York Stock Exchange, wherever listed, on or nearest the Date of Termination or the highest per share price for Corporation Shares actually paid in connection with any Change of Control of the Corporation, over the per share exercise price of each Option held by the Executive (whether or not then fully exercisable), times (b) the number of Corporation Shares covered by each such Option;

(E) If the payments or benefits, if any, received or to be received by the Executive (whether under this Agreement or under any other plan, arrangement, or agreement between the Executive and the Corporation), in connection with termination or Constructive Termination of the Executive's employment following a Change of Control, constitute an "excess parachute payment" within the meaning of ss.280G of the Internal Revenue Code ("Code"), the Corporation shall pay to the Executive, no later than the fifth day following the Date of Termination, an additional amount (as determined by the Corporation's independent public accountants) equal to the excise tax, if any, imposed on the "excess parachute payment" under ss.4999 of the Code; provided, however, if the amount of such excise tax is finally determined to be more or less than the amount paid to the Executive hereunder, the Corporation (or the Executive if the finally determined amount is less than the original amount paid) shall pay the difference between the amount originally paid and the finally determined amount to the other party no later than the fifth day following the date such final determination is made;

(F) The Corporation shall pay to the Executive all reasonable legal fees and expenses incurred by the Executive as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement), unless the decision-maker in any proceeding, contest, or dispute arising hereunder makes a formal finding that the Executive did not have a reasonable basis for instituting such proceeding, contest, or dispute;

(G) The Corporation shall provide the Executive with individual out-placement services in accordance with the general custom and practice generally accorded to an executive of the Executive's position.

5. Successors; Binding Agreement.

(A) The Corporation shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if no such succession had taken place. Failure of the Corporation to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Corporation in the same amount and on the same terms to which the Executive would be entitled hereunder if the Executive terminates his employment on account of Constructive Termination following a Change of Control of the Corporation, except that for the purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "the Corporation" shall mean the Corporation and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement, by operation of law or otherwise.

(B) This Agreement shall inure to the benefit of and be enforceable by the Executive and his personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable to the Executive hereunder had the Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the devisee, legatee or other designee or, if there is no such designee, to his estate.

6. Miscellaneous.

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Corporation. No waiver by either party hereto at the time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Indiana without regard to its conflicts of law principles. All references to a section of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such section. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Corporation under Section 4 shall survive the expiration of the term of this Agreement.

7. Validity.

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

8. Counterparts.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

9. Arbitration.

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three (3) arbitrators in Muncie, Indiana in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

10. Entire Agreement.

This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto; and any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and cancelled.

IN WITNESS WHEREOF, the Corporation and the Bank have caused this Agreement to be executed by their duly authorized officers, and the Executive has hereunder subscribed his name, as of the day and year first above written.

"CORPORATION"	"EXECUTIVE"
FIRST MERCHANTS CORPORATION	
By ______________________________	By ______________________________
Michael L. Cox, President & Chief Executive Officer	Jeffrey B. Lorentson

EXHIBIT-13
FIRST MERCHANTS CORPORATION - ANNUAL REPORT 2005

EXHIBIT 13--FIRST MERCHANTS CORPORATION - ANNUAL REPORT 2005

FINANCIAL REVIEW

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(in thousands, except share data)	2005	2004	2003	2002	2001
Operations (3)(5)(6)					
Net Interest Income					
Fully Taxable Equivalent (FTE) Basis	$ 114,907	$ 108,986	$ 106,899	$ 96,599	$ 66,806
Less Tax Equivalent Adjustment	3,778	3,597	3,757	3,676	2,445
Net Interest Income	111,129	105,389	103,142	92,923	64,361
Provision for Loan Losses	8,354	5,705	9,477	7,174	3,576
Net Interest Income					
After Provision for Loan Losses	102,775	99,684	93,665	85,749	60,785
Total Other Income	34,717	34,554	35,902	27,077	18,543
Total Other Expenses	93,957	91,642	91,279	71,009	45,195
Income Before Income Tax Expense	43,535	42,596	38,288	41,817	34,133
Income Tax Expense	13,296	13,185	10,717	13,981	11,924
Net Income	$ 30,239	$ 29,411	$ 27,571	$ 27,836	$ 22,209
Per share data (1)(3)(5)(6)					
Basic Net Income	$ 1.64	$ 1.59	$ 1.51	$ 1.70	$ 1.63
Diluted Net Income	1.63	1.58	1.50	1.69	1.61
Cash Dividends Paid	.92	.92	.90	.86	.84
December 31 Book Value	17.02	16.93	16.42	15.24	12.82
December 31 Market Value (Bid Price)	26.00	28.30	25.51	21.67	21.78
Average balances (3)(5)(6)					
Total Assets	$3,179,464	$3,109,104	$2,960,195	$2,406,251	$1,689,694
Total Loans (4)	2,434,134	2,369,017	2,281,614	1,842,429	1,270,555
Total Deposits	2,418,752	2,365,306	2,257,075	1,857,053	1,331,631
Securities Sold Under Repurchase Agreements					
(long-term portion)		181		66,535	44,394
Total Federal Home Loan Bank Advances	227,311	225,375	208,733	155,387	103,941
Total Subordinated Debentures, Revolving					
Credit Lines and Term Loans	106,811	96,230	94,203	52,756	2,571
Total Stockholders' Equity	315,525	310,004	293,603	237,575	166,232
Year-end balances (3)(5)(6)					
Total Assets	$3,237,079	$3,191,668	$3,076,812	$2,678,687	$1,787,035
Total Loans (4)	2,462,337	2,431,418	2,356,546	2,025,922	1,359,893
Total Deposits	2,382,576	2,408,150	2,362,101	2,036,688	1,421,251
Securities Sold Under Repurchase Agreements					
(long-term portion)		320		23,632	32,500
Total Federal Home Loan Bank Advances	247,865	223,663	212,779	184,677	103,499
Total Subordinated Debentures, Revolving					
Credit Lines and Term Loans	103,956	97,206	97,782	72,488	8,500
Total Stockholders' Equity	313,396	314,603	303,965	261,129	179,128
Financial ratios (3)(5)(6)					
Return on Average Assets	.95%	.95%	.93%	1.16%	1.31%
Return on Average Stockholders' Equity	9.58	9.49	9.39	11.72	13.36
Average Earning Assets to Total Assets	90.93	90.28	89.99	91.38	93.29
Allowance for Loan Losses as % of Total Loans	1.02	.93	1.08	1.11	1.11
Dividend Payout Ratio	56.44	58.23	60.00	50.89	52.17
Average Stockholders' Equity to Average Assets	9.92	9.97	9.92	9.87	9.84
Tax Equivalent Yield on Earning Assets (2)	6.26	5.72	5.98	6.83	7.80
Cost of Supporting Liabilities	2.29	1.84	1.97	2.44	3.56
Net Interest Margin on Earning Assets	3.97	3.88	4.01	4.39	4.24

(1) Restated for all stock dividends and stock splits.

(2) Average earning assets include the average balance of securities classified as available for sale, computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.

(3) Business combinations that affect the comparability of the 2005, 2004 and 2003 information are discussed in Note 2 to the Consolidated Financial Statements.

(4) Includes loans held for sale.

(5) On April 1, 2002, the Corporation acquired 100 percent of the outstanding stock of Lafayette Bancorporation, the holding company of Lafayette Bank and Trust Company, N.A. ("Lafayette"), which is located in Lafayette, Indiana. Lafayette is a national chartered bank with branches located in central Indiana. Lafayette Bancorporation was merged into the Corporation, and Lafayette maintained its bank charter as a subsidiary of First Merchants Corporation. The Corporation issued approximately 3,057,298 shares of its common stock at a cost of $21.30 per share and approximately $50,867,000 in cash to complete the transaction. As a result of the acquisition, the Corporation has an opportunity to increase its customer base and continue to increase its market share. The purchase had a recorded acquisition price of $115,978,000, including investments of $104,717,000; loans of $552,016,000; premises and equipment of $10,269,000; other assets of $64,074,000; deposits of $607,281,000; other liabilities of $81,762,000 and goodwill of $57,893,000. None of the goodwill is deductible for tax purposes. Additionally, core deposit intangibles totaling $16,052,000 were recognized and are being amortized over 10 years using the 150 percent declining balance method. The combination was accounted for under the purchase method of accounting. All assets and liabilities were recorded at

their fair values as of April 1, 2002. The purchase accounting adjustments are being amortized over the life of the respective asset or liability. Lafayette's results of operations are included in the Corporation's consolidated results of operations beginning April 1, 2002.

(6) On July 1, 2001, the Corporation acquired 100 percent of the outstanding stock of Francor Financial, Inc., the holding company of Frances Slocum Bank & Trust Company, N.A. ("Frances Slocum"), which is located in Wabash, Indiana. Frances Slocum is a national chartered bank with branches located in east-central Indiana. Francor Financial, Inc. was merged into the Corporation, and Frances Slocum maintained its bank charter as a subsidiary of First Merchants Corporation. The Corporation issued 784,838 shares of its common stock at a cost of $19.53 per share and $14,490,985 in cash to complete the transaction. As a result of the acquisition, the Corporation has an opportunity to increase its customer base and continue to increase its market share. The purchase had a recorded acquisition price of $29,454,000, including investments of $6,348,000; loans of $134,505,000; premises and equipment of $4,401,000; other assets of $28,233,000; deposits of $150,252,000; other liabilities of $6,492,000 and goodwill of $7,907,000. None of the goodwill is deductible for tax purposes. Additionally, core deposit intangibles totaling $4,804,000 were recognized and are being amortized over 10 years using the 150 percent declining balance method. The combination was accounted for under the purchase method of accounting. All assets and liabilities were recorded at their fair values as of July 1, 2001. The purchase accounting adjustments are being amortized over the life of the respective asset or liability. Frances Slocum's results of operations are included in the Corporation's consolidated results of operations beginning July 1, 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

First Merchants Corporation ("Corporation") from time to time includes forward-looking statements in its oral and written communication. The Corporation may include forward-looking statements in filings with the Securities and Exchange Commission, such as Form 10-K and Form 10-Q, in other written materials and in oral statements made by senior management to analysts, investors, representatives of the media and others. The Corporation intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and the Corporation is including this statement for purposes of these safe harbor provisions. Forward-looking statements can often be identified by the use of words like "estimate," "project," "intend," "anticipate," "expect" and similar expressions. These forward-looking statements include:

- statements of the Corporation's goals, intentions and expectations;
- statements regarding the Corporation's business plan and growth strategies;
- statements regarding the asset quality of the Corporation's loan and investment portfolios; and
- estimates of the Corporation's risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors which could affect the actual outcome of future events:

- fluctuations in market rates of interest and loan and deposit pricing, which could negatively affect the Corporation's net interest margin, asset valuations and expense expectations;
- adverse changes in the economy, which might affect the Corporation's business prospects and could cause credit-related losses and expenses;
- adverse developments in the Corporation's loan and investment portfolios;
- competitive factors in the banking industry, such as the trend towards consolidation in the Corporation's market; and
- changes in the banking legislation or the regulatory requirements of federal and state agencies applicable to bank holding companies and banks like the Corporation's affiliate banks.

Because of these and other uncertainties, the Corporation's actual future results may be materially different from the results indicated by these forward-looking statements. In addition, the Corporation's past results of operations do not necessarily indicate its future results.

CRITICAL ACCOUNTING POLICIES

Generally accepted accounting principles require management to apply significant judgment to certain accounting, reporting and disclosure matters. Management must use assumptions and estimates to apply those principles where actual measurement is not possible or practical. For a complete discussion of the Corporation's significant accounting policies, see the notes to the consolidated financial statements and discussion throughout this Annual Report. Below is a discussion of the Corporation's critical accounting policies. These policies are critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the

CRITICAL ACCOUNTING POLICIES continued

Corporation's financial statements. Management has reviewed the application of these policies with the Corporation's Audit Committee.

Allowance for Loan Losses. The allowance for loan losses represents management's estimate of probable losses inherent in the Corporation's loan portfolio. In determining the appropriate amount of the allowance for loan losses, management makes numerous assumptions, estimates and assessments.

The Corporation's strategy for credit risk management includes conservative credit policies and underwriting criteria for all loans, as well as an overall credit limit for each customer significantly below legal lending limits. The strategy also emphasizes diversification on a geographic, industry and customer level, regular credit quality reviews and management reviews of large credit exposures and loans experiencing deterioration of credit quality.

The Corporation's allowance consists of three components: probable losses estimated from individual reviews of specific loans, probable losses estimated from historical loss rates, and probable losses resulting from economic, environmental, qualitative or other deterioration above and beyond what is reflected in the first two components of the allowance.

Larger commercial loans that exhibit probable or observed credit weaknesses are subject to individual review. Where appropriate, reserves are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to the Corporation. Included in the review of individual loans are those that are impaired as provided in SFAS No. 114, Accounting by Creditors for Impairment of a Loan. Any allowances for impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of the underlying collateral. The Corporation evaluates the collectibility of both principal and interest when assessing the need for a loss accrual. Historical loss rates are applied to other commercial loans not subject to specific reserve allocations.

Homogenous loans, such as consumer installment and residential mortgage loans are not individually risk graded. Reserves are established for each pool of loans using loss rates based on a five year average net charge-off history by loan category.

Historical loss allocations for commercial and consumer loans may be adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. Factors which management considers in the analysis include the effects of the national and local economies, trends in the volume of loans, changes in mix, concentrations of loans in specific industries, asset quality trends (delinquencies, charge-offs and nonaccrual loans), risk management and loan administration, changes in the internal lending policies and credit standards, collection practices and examination results from bank regulatory agencies and the Corporation's internal loan review.

An unallocated reserve, primarily based on the factors noted above, is maintained to recognize the imprecision in estimating and measuring loss when evaluating reserves

CRITICAL ACCOUNTING POLICIES continued

for individual loans or pools of loans. Allowances on individual loans and historical loss allocations are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions.

The Corporation's primary market areas for lending are north-central and east-central Indiana and Columbus, Ohio. When evaluating the adequacy of allowance, consideration is given to this regional geographic concentration and the closely associated effect changing economic conditions have on the Corporation's customers.

The Corporation has not substantively changed any aspect of its overall approach in the determination of the allowance for loan losses. There have been no material changes in assumptions or estimation techniques as compared to prior periods that impacted the determination of the current period allowance.

Valuation of Securities. The Corporation's available-for-sale security portfolio is reported at fair value. The fair value of a security is determined based on quoted market prices. If quoted market prices are not available, fair value is determined based on quoted prices of similar instruments. Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the length of time the fair value has been below cost, the expectation for that security's performance, the credit worthiness of the issuer and the Corporation's ability to hold the security to maturity. A decline in value that is considered to be other-than temporary is recorded as a loss within other operating income in the consolidated statements of income.

Pension. The Corporation provides pension benefits to its employees. In accordance with applicable accounting rules, the Corporation does not consolidate the assets and liabilities associated with the pension plan. Instead, the Corporation recognizes a prepaid asset for contributions the Corporation has made to the pension plan in excess of pension expense. The measurement of the prepaid asset and the annual pension expense involves actuarial and economic assumptions.

The assumptions used in pension accounting relate to the expected rate of return on plan assets, the rate of increase in salaries, the interest-crediting rate, the discount rate, and other assumptions. See Note 16 "Employee Benefit Plans" in the Annual Report for the specific assumptions used by the Corporation.

The annual pension expense for the Corporation is currently most sensitive to the discount rate. Each 25 basis point reduction in the 2006 discount rate of 5.5 percent would increase the Corporation's 2006 pension expense by approximately $93,000. In addition, each 25 basis point reduction in the 2006 expected rate of return of 7.5 percent would increase the Corporation's 2006 pension expense by approximately $97,000.

Goodwill and Intangibles. For purchase acquisitions, the Company is required to record the assets acquired, including identified intangible assets, and the liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on

CRITICAL ACCOUNTING POLICIES continued

discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates or other relevant factors. In addition, the determination of the useful lives for which an intangible asset will be amortized is subjective.

Goodwill and indefinite-lived assets recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible with subsequent reversal of the impairment loss being prohibited. The tests for impairment fair values are based on internal valuations using management's assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors. The resulting estimated fair values could have a significant impact on the carrying values of goodwill or intangibles and could result in impairment losses being recorded in future periods.

BUSINESS SUMMARY

The Corporation is a diversified financial holding company headquartered in Muncie, Indiana. Since its organization in 1982, the Corporation has grown to include nine affiliate banks with over 65 locations in 17 Indiana and 3 Ohio counties. In addition to its branch network, the Corporation's delivery channels include ATMs, check cards, interactive voice response systems and internet technology.

The Corporation's business activities are currently limited to one significant business segment, which is community banking. The Corporation's financial service affiliates include nine nationally chartered banks: First Merchants Bank, N.A., The Madison Community Bank, N.A., First United Bank, N.A., United Communities National Bank, First National Bank, Decatur Bank and Trust Company, N.A., Frances Slocum Bank & Trust Company, N.A., Lafayette Bank and Trust Company, N.A. and Commerce National Bank. Effective January 1, 2006, First United Bank, N.A. was merged into First Merchants Bank, N.A., and the name of the continuing institution is First Merchants Bank, N.A. The banks provide commercial and retail banking services. In addition, the Corporation's trust company, multi-line insurance company and title company provide trust asset management services, retail and commercial insurance agency services and title services, respectively.

Management believes that its mission, guiding principles and strategic initiatives produce profitable growth for stockholders. Our vision is to satisfy all the financial needs of our customers, help them succeed financially and be recognized as the premier financial services company in our markets. Our primary strategy to achieve this vision is to increase product usage and focus on providing each customer with all of the financial products that fulfill their needs. Our cross-sell strategy and diversified business model facilitate growth in strong and weak economic cycles.

Management believes it is important to maintain a well controlled environment as we continue to grow our businesses. Sound credit policies are maintained and have resulted in declining nonperforming loans and net charge-offs as a percentage of loans outstanding from the prior year. Interest rate and market risks inherent in

BUSINESS SUMMARY continued

our asset and liability balances are managed within prudent ranges, while ensuring adequate liquidity and funding.

RESULTS OF OPERATIONS

As of December 31, 2005 total assets equaled $3,237,079,000, an increase of $45,411,000 from December 31, 2004. Of this amount, loans increased $30,919,000, investments increased $12,731,000, intangibles, including goodwill, decreased $2,451,000 and cash value of life insurance increased by $1,518,000. Details of these changes are discussed within the "EARNING ASSETS" section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

As of December 31, 2004 total assets equaled $3,191,668,000, an increase of $114,856,000 or 3.7 percent over 2003. Of this amount, loans increased $74,548,000 and investments increased $64,738,000.

Net income for 2005 totaled $30,239,000, an increase of $828,000 or 2.8 percent from 2004. Diluted earnings per share totaled $1.63, a 3.2 percent increase from $1.58 reported for 2004. The increase was primarily attributable to an improved net interest margin of 9 basis points as compared to 2004. However, the improvement to net interest margin and its impact to net income was partially mitigated by a $1,630,000 pension curtailment loss recorded during the year. These factors and others are discussed within the respective sections of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Net income for 2004 totaled $29,411,000, an increase of $1,840,000 or 6.7 percent. The increase was primarily attributable to loan growth and improved credit quality. Diluted earnings per share totaled $1.58, a 5.3 percent increase from $1.50 reported for 2003. These factors and others are discussed within the respective sections of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Return on equity totaled 9.58 percent in 2005, 9.49 percent in 2004, and 9.39 percent in 2003. Return on assets totaled .95 percent in 2005, .95 percent in 2004, and .93 percent in 2003. Multiple factors impacting the reported financial results are discussed within the respective sections of Management's Discussion and Analysis of Financial Condition and Results of Operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAPITAL

The Corporation's regulatory capital continues to exceed regulatory "well capitalized" standards. Tier I regulatory capital consists primarily of total stockholders' equity and subordinated debentures issued to business trusts categorized as qualifying borrowings, less non-qualifying intangible assets and unrealized net securities gains. The Corporation's Tier I capital to average assets ratio was 7.70 percent and 7.50 percent at December 31, 2005 and 2004, respectively. In addition, at December 31, 2005, the Corporation had a Tier I risk-based capital ratio of 9.66 percent and total risk-based capital ratio of 11.72 percent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 percent and a total risk-based capital ratio of 8.0 percent.

The Corporation's GAAP capital ratio, defined as total stockholders' equity to total assets, equaled 9.68 percent as of December 31, 2005, down from 9.86 percent in 2004. When the Corporation acquires other companies for stock, GAAP capital increases by the entire amount of the purchase price.

The Corporation's tangible capital ratio, defined as total stockholders' equity less intangibles net of tax to total assets less intangibles net of tax, equaled 5.82 percent as of December 31, 2005 down from 5.92 percent in 2004.

Management believes that all of the above capital ratios are meaningful measurements for evaluating the safety and soundness of the Corporation. Additionally, management believes the following table is also meaningful when considering performance measures of the Corporation. The table details and reconciles tangible earnings per share, return on tangible capital and tangible assets to traditional GAAP measures.

(Dollars in Thousands)	December 31, 2005	December 31, 2004
Average Goodwill	$ 112,281	$ 112,281
Average Core Deposit Intangible (CDI)	19,001	22,164
Average Deferred Tax on CDI	(6,959)	(8,105)
Intangible Adjustment	$ 124,323	$ 126,340
Average Stockholders' Equity (GAAP Capital)	$ 315,525	$ 310,004
Intangible Adjustment	(124,323)	(126,340)
Average Tangible Capital	$ 191,202	$ 183,664
Average Assets	$3,179,464	$3,109,104
Intangible Adjustment	(124,323)	(126,340)
Average Tangible Assets	$3,055,141	$2,982,764
Net Income	$ 30,239	$ 29,411
CDI Amortization, net of tax	1,955	2,133
Tangible Net Income	$ 32,194	$ 31,544
Diluted Earnings per Share	$ 1.63	$ 1.58
Diluted Tangible Earnings per Share	$ 1.73	$ 1.69
Return on Average GAAP Capital	9.58%	9.49%
Return on Average Tangible Capital	16.84%	17.49%
Return on Average Assets	0.95%	0.95%
Return on Average Tangible Assets	1.05%	1.06%

ASSET QUALITY/PROVISION FOR LOAN LOSSES

The Corporation's primary business focus is small business and middle market commercial and residential real estate, auto and small consumer lending, which results in portfolio diversification. Management ensures that appropriate methods to understand and underwrite risk are utilized. Commercial loans are individually underwritten and judgmentally risk rated. They are periodically monitored and prompt corrective actions are taken on deteriorating loans. Retail loans are typically underwritten with statistical decision-making tools and are managed throughout their life cycle on a portfolio basis.

The allowance for loan losses is maintained through the provision for loan losses, which is a charge against earnings. The amount provided for loan losses and the determination of the adequacy of the allowance are based on a continuous review of the loan portfolio, including an internally administered loan "watch" list and an independent loan review. The evaluation takes into consideration identified credit problems, as well as the possibility of losses inherent in the loan portfolio that are not specifically identified. (See Critical Accounting Policies)

At December 31, 2005, non-performing loans totaled $14,305,000, a decrease of $4,976,000, as noted in the following table. Loans 90 days past due other than non-accrual and restructured loans increased by $349,000. The amount of non-accrual loans totaled $10,030,000 at December 31, 2005. Non-performing loans will increase or decrease going forward due to portfolio growth, routine problem loans recognition and resolution through collections, sales or charge-offs. The performance of any loan can be affected by external factors, such as economic conditions, or factors particular to a borrower, such as actions of a borrower's management.

At December 31, 2005, impaired loans totaled $52,380,000, an increase of $2,969,000 from year end 2004. At December 31, 2005, a specific allowance for losses was not deemed necessary for impaired loans totaling $44,840,000, but a specific allowance of $2,824,000 was recorded for the remaining balance of impaired loans of $7,540,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for 2005 was $44,790,000. The increase of total impaired loans is primarily due to the increase of performing, substandard classified loans, which comprise a portion of the Corporation's total impaired loans. A loan is deemed impaired when, based on current information or events, it is probable that all amounts due of principal and interest according to the contractual terms of the loan agreement will not be collected. For the Corporation, all performing, substandard classified loans are included in the impaired loan total.

At December 31, 2005, the allowance for loan losses was $25,188,000, an increase of $2,640,000 from year end 2004. As a percent of loans, the allowance was 1.02 percent at December 31, 2005 and .93 percent at December 31, 2004. Management believes that the allowance for loan losses is adequate to cover losses inherent in the loan portfolio at December 31, 2005. The process for determining the adequacy of the allowance for loan losses is critical to our financial results. It requires management to make difficult, subjective and complex judgments, as a result of the need to make estimates about the effect of matters that are uncertain. Therefore, the allowance for loan losses, considering current factors at the time, including economic conditions and ongoing internal and external examination processes, will

ASSET QUALITY/PROVISION FOR LOAN LOSSES continued

increase or decrease as deemed necessary to ensure the allowance for loan losses remains adequate. In addition, the allowance as a percentage of charge-offs and nonperforming loans will change at different points in time based on credit performance, loan mix and collateral values.

The provision for loan losses in 2005 was $8,354,000, an increase of $2,649,000 from $5,705,000 in 2004. The Corporation's provision for loan losses increased primarily due to an increase in the five-year rolling historical loan charge-off ratio utilized within the Corporation's allowance for loan losses calculation.

The provision for loan losses in 2004 was $5,705,000, a decrease of $3,772,000 from $9,477,000 in 2003. The Corporation's allowance for loan losses reflected decreased non-performing loans and specific reserves, resulting in decreased provision expense in 2004.

The following table summarizes the non-accrual, contractually past due 90 days or more other than non-accruing and restructured loans for the Corporation.

(Dollars in Thousands)	December 31, 2005	December 31, 2004
Non-accrual loans	$10,030	$15,355
Loans contractually past due 90 days or more other than non-accruing	3,965	1,907
Restructured loans	310	2,019
Total	$14,305	$19,281

The table below represents loan loss experience for the years indicated.

(Dollars in Thousands)	2005	2004	2003
Allowance for loan losses:			
Balance at January 1	$22,548	$25,493	$22,417
Chargeoffs	7,744	10,901	12,139
Recoveries	2,030	2,251	2,011
Net chargeoffs	5,714	8,650	10,128
Provision for loan losses	8,354	5,705	9,477
Allowance acquired in acquisitions			3,727
Balance at December 31	$25,188	$22,548	$25,493
Ratio of net chargeoffs during the period to average loans outstanding during the period	.23%	.37%	.44%

LIQUIDITY

Liquidity management is the process by which the Corporation ensures that adequate liquid funds are available for the Corporation and its subsidiaries. These funds are necessary in order for the Corporation and its subsidiaries to meet financial commitments on a timely basis. These commitments include withdrawals by depositors, funding credit obligations to borrowers, paying dividends to shareholders, paying operating expenses, funding capital expenditures, and maintaining deposit reserve requirements. Liquidity is monitored and closely managed by the asset/liability committees at each subsidiary and by the Corporation's asset/liability committee.

LIQUIDITY continued

The liquidity of the Corporation is dependent upon the receipt of dividends from its bank subsidiaries, which are subject to certain regulatory limitations as explained in Note 14 to the consolidated financial statements, and access to other funding sources. Liquidity of the Corporation's bank subsidiaries is derived primarily from core deposit growth, principal payments received on loans, the sale and maturity of investment securities, net cash provided by operating activities, and access to other funding sources.

The most stable source, of liability-funded liquidity for both the long-term and short-term, is deposit growth and retention in the core deposit base. In addition, the Corporation utilizes advances from the Federal Home Loan Bank ("FHLB") and a revolving line of credit with LaSalle Bank, N.A. ("LaSalle") as funding sources. At December 31, 2005, total borrowings from the FHLB were $247,865,000, and the outstanding balance of the LaSalle revolving line of credit totaled $15,000,000. The Corporation's bank subsidiaries have pledged certain mortgage loans and certain investments to the FHLB. The total available remaining borrowing capacities from FHLB and LaSalle at December 31, 2005, were $62,228,000 and $5,000,000, respectively.

The principal source of asset-funded liquidity is investment securities classified as available-for-sale, the market values of which totaled $422,627,000 at December 31, 2005. Securities classified as held-to-maturity that are maturing within a short period of time can also be a source of liquidity. Securities classified as held-to-maturity and that are maturing in one year or less totaled $733,000 at December 31, 2005. In addition, other types of assets-such as cash and due from banks, federal funds sold and securities purchased under agreements to resell, and loans and interest-bearing deposits with other banks maturing within one year-are sources of liquidity.

In the normal course of business, the Corporation is a party to a number of other off-balance sheet activities that contain credit, market and operational risk that are not reflected in whole or in part in the Corporation's consolidated financial statements. Such activities include: traditional off-balance sheet credit-related financial instruments, commitments under operating leases and long-term debt.

The Corporation provides customers with off-balance sheet credit support through loan commitments and standby letters of credit. Summarized credit-related financial instruments at December 31, 2005 are as follows:

(Dollars in Thousands)	At December 31, 2005
Amounts of commitments:	
Loan commitments to extend credit	$574,384
Standby letters of credit	30,410
	$604,794

Since many of the commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

LIQUIDITY continued

In addition to owned banking facilities, the Corporation has entered into a number of long-term leasing arrangements to support the ongoing activities of the Corporation. The required payments under such commitments and other borrowing arrangements at December 31, 2005 are as follows:

(Dollars in Thousands)	2006	2007	2008	2009	2010	2010 and after	Total
Operating leases	$ 2,055	$ 1,756	$ 1,275	$ 1,111	$ 1,057	$ 1,649	$ 8,903
Federal funds purchased	50,000						50,000
Securities sold under repurchase agreements	106,415						106,415
Federal Home Loan Bank advances	56,335	32,495	32,839	11,382	35,192	79,622	247,865
Subordinated debentures, revolving credit lines and term loans	15,000					88,956	103,956
Total	$229,805	$34,251	$34,114	$12,493	$ 36,249	$170,227	$517,139

The Corporation has various purchase obligations for new facilities or improvements to existing facilities. At December 31, 2005, the Corporation's purchase obligations outstanding totaled $6,156,000.

INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK

Asset/Liability Management has been an important factor in the Corporation's ability to record consistent earnings growth through periods of interest rate volatility and product deregulation. Management and the Board of Directors monitor the Corporation's liquidity and interest sensitivity positions at regular meetings to review how changes in interest rates may affect earnings. Decisions regarding investment and the pricing of loan and deposit products are made after analysis of reports designed to measure liquidity, rate sensitivity, the Corporation's exposure to changes in net interest income given various rate scenarios and the economic and competitive environments.

It is the objective of the Corporation to monitor and manage risk exposure to net interest income caused by changes in interest rates. It is the goal of the Corporation's Asset/Liability function to provide optimum and stable net interest income. To accomplish this, management uses two asset liability tools. GAP/Interest Rate Sensitivity Reports and Net Interest Income Simulation Modeling are both constructed, presented and monitored quarterly.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK continued

Management believes that the Corporation's liquidity and interest sensitivity position at December 31, 2005, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk. The following table presents the Corporation's interest rate sensitivity analysis as of December 31, 2005.

(Dollars in Thousands)	At December 31, 2005				
	1-180 DAYS	181-365 DAYS	1-5 YEARS	BEYOND 5 YEARS	TOTAL
Rate-Sensitive Assets:					
Interest-bearing deposits	$ 8,748				$ 8,748
Investment securities	56,711	$ 47,049	$ 245,520	$ 84,986	434,266
Loans	1,057,267	310,978	888,487	205,605	2,462,337
Federal Reserve and Federal Home Loan Bank stock			21,665	1,535	23,200
Total rate-sensitive assets	1,122,726	358,027	1,155,672	292,126	2,928,551
Rate-Sensitive Liabilities:					
Federal funds purchased	50,000				50,000
Interest-bearing deposits	1,355,305	233,450	428,325	51,161	2,068,241
Securities sold under repurchase agreements	106,295	120			106,415
Federal Home Loan Bank advances	38,500	17,835	111,908	79,622	247,865
Subordinated debentures, revolving credit lines and term loans	15,000			88,956	103,956
Total rate-sensitive liabilities	1,565,100	251,405	540,233	219,739	2,576,477
Interest rate sensitivity gap by period	$ (442,374)	$ 106,622	$ 615,439	$ 72,387	
Cumulative rate sensitivity gap	(447,374)	(335,752)	279,687	352,074	
Cumulative rate sensitivity gap ratio					
at December 31, 2005	71.7%	81.5%	111.9%	113.7%	
at December 31, 2004	81.9%	90.0%	114.3%	116.1%	

The Corporation had a cumulative negative gap of $335,752,000 in the one-year horizon at December 31, 2005, just over 10.4 percent of total assets.

The Corporation places its greatest credence in net interest income simulation modeling. The above GAP/Interest Rate Sensitivity Report is believed by the Corporation's management to have two major shortfalls. The GAP/Interest Rate Sensitivity Report fails to precisely gauge how often an interest rate sensitive product reprices, nor is it able to measure the magnitude of potential future rate movements.

Net interest income simulation modeling, or earnings-at-risk, measures the sensitivity of net interest income to various interest rate movements. The Corporation's asset liability process monitors simulated net interest income under three separate interest rate scenarios; base, rising and falling. Estimated net interest income for each scenario is calculated over a 12-month horizon. The immediate and parallel changes to the base case scenario used in the model are presented below. The interest rate scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings of the Corporation.

The base scenario is highly dependent on numerous assumptions embedded in the model, including assumptions related to future interest rates. While the base sensitivity analysis incorporates management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. For mortgage-related assets, the base simulation model captures the expected prepayment behavior under changing interest rate environments. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity products, e.g., savings, money market,

INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK continued

NOW and demand deposits reflect management's best estimate of expected future behavior.

The comparative rising and falling scenarios for the period ending December 31, 2006 assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management in the base simulation for the period ended December 31, 2006 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(200) Basis Points
Federal Funds	200	(200)
One-Year CMT	200	(200)
Two-Year CMT	200	(200)
Three-Year CMT	200	(200)
Five-Year CMT	200	(200)
CD's	200	(89)
FHLB Advances	200	(200)

Results for the base, rising and falling interest rate scenarios are listed below, based upon the Corporation's rate sensitive assets and liabilities at November 30, 2005. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	BASE	RISING	FALLING
Net Interest Income (Dollars in Thousands)	$111,989	$114,930	$109,220
Variance from base		$ 2,941	$ (2,769)
Percent of change from base		2.63%	(2.47)%

The comparative rising and falling scenarios for the period ended December 31, 2005 assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management in the base simulation for the period ended December 31, 2005 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(200) Basis Points
Federal Funds	200	(200)
One-Year CMT	200	(200)
Two-Year CMT	200	(200)
CD's	200	(74)
FHLB Advances	200	(200)

Results for the base, rising and falling interest rate scenarios are listed below. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	BASE	RISING	FALLING
Net Interest Income (Dollars in Thousands)	$109,311	$117,212	$ 97,757
Variance from base		$ 7,901	$(11,554)
Percent of change from base		7.2%	(10.6)%

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EARNING ASSETS

Earnings assets increased approximately $43,397,000 during 2005 as compared to 2004. Loans grew by $30,919,000. Positive growth of commercial and industrial loans, real estate construction and farmland real estate loans totaled approximately $45,622,000. In addition, individuals' loans for household and other personal expenditures grew approximately $1,607,000 during 2005. These increases were mitigated by a decline in residential real estate loans, agriculture loans and leases of approximately $14,773,000.

The table below reflects the earning asset mix for the years 2005 and 2004 (at December 31).

Earning Assets
(Dollars in Thousands)

	December 31, 2005	December 31, 2004
Interest-bearing time deposits	$ 8,748	$ 9,343
Investment securities available for sale	422,627	416,177
Investment securities held to maturity	11,639	5,358
Mortgage loans held for sale	4,910	3,367
Loans	2,457,427	2,428,051
Federal Reserve and Federal Home Loan Bank stock	23,200	22,858
Total	$2,928,551	$2,885,154

DEPOSITS AND BORROWINGS

The table below reflects the level of deposits and borrowed funds (federal funds purchased; repurchase agreements; Federal Home Loan Bank advances; subordinated debentures, revolving credit lines and term loans) based on year-end levels at December 31, 2005 and 2004.

(Dollars in Thousands)

	December 31, 2005	December 31, 2004
Deposits	$2,382,576	$2,408,150
Federal funds purchased	50,000	32,550
Securities sold under repurchase agreements	106,415	87,472
Federal Home Loan Bank advances	247,865	223,663
Subordinated debentures, revolving credit lines and term loans	103,956	97,206
	$2,890,812	$2,849,041

The Corporation has continued to leverage its capital position with Federal Home Loan Bank advances, as well as repurchase agreements which are pledged against acquired investment securities as collateral for the borrowings. The interest rate risk is included as part of the Corporation's interest simulation discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations under the headings "LIQUIDITY" and "INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK".

NET INTEREST INCOME

Net interest income is the primary source of the Corporation's earnings. It is a function of net interest margin and the level of average earning assets. The following table presents the Corporation's asset yields, interest expense, and net interest income as a percent of average earning assets for the three-year period ending in 2005.

NET INTEREST INCOME continued

In 2005, asset yields increased 54 basis points (FTE) and interest cost increased 45 basis points, resulting in a 9 basis point (FTE) increase in net interest income as compared to 2004. The improvement in margin was primarily a result of eight 25 basis point overnight federal funds rate increases by the Federal Open Market Committee during this period. As a result, the Corporation's prime lending rates increased accordingly, while offsetting deposit rate increases were less significant.

In 2004, asset yields decreased 26 basis points (FTE) and interest cost decreased 13 basis points, resulting in a 13 basis point (FTE) decrease in net interest income as compared to 2003. Margins remained compressed through the first half of 2004 as the combined first and second quarters net interest margin equaled 3.87 percent. In June 2004, the first of five 25 basis point overnight federal funds rate increases by the Federal Open Market Committee occurred, helping increase the combined third and fourth quarter net interest margin to 3.90 percent. However, the net interest margin for the 2004 fourth quarter declined to 3.85 percent. This was primarily due to the reversal of approximately $340,000 of interest income in the fourth quarter, related to loans placed on non-accrual status and charged-off during the quarter. In addition, the Corporation maintained an average federal funds sold position of approximately $60 million, which generated lower yields.

(Dollars in Thousands)	December 31, 2005	2004	2003
Net Interest Income	$ 111,129	$ 105,389	$ 103,142
FTE Adjustment	$ 3,778	$ 3,597	$ 3,757
Net Interest Income On a Fully Taxable Equivalent Basis	$ 114,907	$ 108,986	$ 106,899
Average Earning Assets	$2,891,121	$2,806,776	$2,663,853
Interest Income (FTE) as a Percent of Average Earning Assets	6.26%	5.72%	5.98%
Interest Expense as a Percent of Average Earning Assets	2.29%	1.84%	1.97%
Net Interest Income (FTE) as a Percent of Average Earning Assets	3.97%	3.88%	4.01%

Average earning assets include the average balance of securities classified as available for sale, computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment. In addition, annualized amounts are computed utilizing a 30/360 day basis.

OTHER INCOME

The Corporation offers a wide range of fee-based services. Fee schedules are regularly reviewed by a pricing committee to ensure that the products and services offered by the Corporation are priced to be competitive and profitable.

OTHER INCOME continued

Other income in 2005 amounted to $34,717,000, a .5 percent increase from 2004. The change in other income from 2005 to 2004 was minor and primarily attributable to fluctuations within the following other income items:

1. Insurance commissions increased by $733,000, due to the receipt of increased profit sharing payments from insurance underwriters, as compared to the same period in 2004.

2. Fees on debit cards and ATMs increased by approximately $899,000 as compared to the same period in 2004. This was primarily a result of increased card usage by customers.

3. Net gains and fees on sales of mortgage loans decreased by $727,000 from the same period in 2004, as stabilizing mortgage interest rates caused reduced volumes of mortgage refinancing.

4. In 2005, sales of available for sale securities resulted in a net loss of $2,000; however, in 2004, sales of available for sale securities resulted in net gains totaling $1,188,000.

Other income in 2004 amounted to $34,554,000, a 3.8 percent decline from 2003. The decrease of $1,348,000 is primarily attributable to the following factors:

1. Net gains and fees on sales of mortgage loans included in other income decreased by $2,759,000 due to decreased mortgage volume during 2004.

2. Life insurance proceeds included in other income was $0 for 2004 compared to $535,000 for 2003.

3. Service charges on deposit accounts increased $533,000 or 4.8 percent due to increased number of customer accounts and price adjustments.

4. Revenues from fiduciary activities increased $896,000 or 13.3 percent due to expansion, market improvements and price adjustments.

OTHER EXPENSES

Other expenses represent non-interest operating expenses of the Corporation. Other expenses amounted to $93,957,000 in 2005, an increase of 2.5 percent from the prior year, or $2,315,000. A pension accounting loss, totaling approximately $1,630,000, was recorded during the first quarter of 2005 and accounts for most of the increase. The loss resulted from the curtailment of the accumulation of defined benefits in the Corporation's defined benefit plan.

Other expenses amounted to $91,642,000 in 2004, an increase of 0.4 percent from the prior year, or $363,000. The following factors account for most of the 2004 increase:

1. Salaries and benefit expense grew $1,995,000 or 4.0 percent, due to normal salary increases and additional salary cost related to the March 1, 2003 acquisition of Commerce National.

OTHER EXPENSES continued

2. Prepayment penalties for early prepayment of FHLB advances totaled $340,000 for 2003 and no such penalties were incurred during 2004.

3. Investment securities write-downs totaling $615,000 were incurred in 2003, resulting from other-than-temporary losses being recognized on two securities. No investment security write-downs, resulting from other-than temporary losses, were incurred during 2004.

4. In 2003, the Corporation incurred $460,000 expense to fund the anticipation of a settlement of a claim. No such expense was incurred during 2004.

INCOME TAXES

Income tax expense totaled $13,296,000 for 2005, which is an increase of $111,000 from 2004. The 2005 increase in tax expense is primarily a result of the increase of the 2005 income before income tax, as compared to 2004.

In addition, the effective tax rates for the periods ending December 31, 2005, 2004 and 2003 were 30.5 percent, 31.0 percent and 28.0 percent, respectively. The effective tax rate has remained lower than the federal statutory income tax rate of 34 percent, primarily due to the Corporation's tax-exempt investment income on securities and loans, income tax credits generated from investments in affordable housing projects, income generated by subsidiaries domiciled in a state with no state or local income tax, increases in tax exempt earnings from bank-owned life insurance contracts and reduced state taxes, resulting from the effect of state income apportionment.

INFLATION

Changing prices of goods, services and capital affect the financial position of every business enterprise. The level of market interest rates and the price of funds loaned or borrowed fluctuate due to changes in the rate of inflation and various other factors, including government monetary policy.

Fluctuating interest rates affect the Corporation's net interest income, loan volume and other operating expenses, such as employee salaries and benefits, reflecting the effects of escalating prices, as well as increased levels of operations and other factors. As the inflation rate increases, the purchasing power of the dollar decreases. Those holding fixed-rate monetary assets incur a loss, while those holding fixed-rate monetary liabilities enjoy a gain. The nature of a financial holding company's operations is such that there will generally be an excess of monetary assets over monetary liabilities, and, thus, a financial holding company will tend to suffer from an increase in the rate of inflation and benefit from a decrease.

OTHER

The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the commission, including the Corporation, and that address is (http://www.sec.gov).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders
First Merchants Corporation
Muncie, Indiana

We have audited the accompanying consolidated balance sheets of First Merchants Corporation as of December 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 First Merchants Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of First Merchants Corporation's internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated January 27, 2006 expressed unqualified opinions on management's assessment and on the effectiveness of the Corporation's internal control over financial reporting.

BKD, LLP

Indianapolis, Indiana
January 27, 2006

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(in thousands, except share data)	December 31, 2005	December 31, 2004
Assets		
Cash and due from banks	$ 70,417	$ 69,960
Interest-bearing time deposits	8,748	9,343
Investment securities		
Available for sale	422,627	416,177
Held to maturity (fair value of $11,510 and $5,520)	11,639	5,358
Total investment securities	434,266	421,535
Mortgage loans held for sale	4,910	3,367
Loans, net of allowance for loan losses of $25,188 and $22,548	2,432,239	2,405,503
Premises and equipment	39,417	38,254
Federal Reserve and Federal Home Loan Bank stock	23,200	22,858
Interest receivable	19,690	17,318
Core deposit intangibles	17,567	20,669
Goodwill	121,266	120,615
Cash value of life insurance	43,579	42,061
Other assets	21,780	20,185
Total assets	$ 3,237,079	$ 3,191,668
Liabilities		
Deposits		
Noninterest-bearing	$ 314,335	$ 330,685
Interest-bearing	2,068,241	2,077,465
Total deposits	2,382,576	2,408,150
Borrowings	508,236	440,891
Interest payable	5,874	4,411
Other liabilities	26,997	23,613
Total liabilities	2,923,683	2,877,065
Commitments and Contingent Liabilities		
Stockholders' equity		
Preferred stock, no-par value		
Authorized and unissued -- 500,000 shares		
Common stock, $.125 stated value		
Authorized -- 50,000,000 shares		
Issued and outstanding - 18,416,714 and 18,573,997 shares	2,302	2,322
Additional paid-in capital	145,682	150,862
Retained earnings	174,717	161,459
Accumulated other comprehensive loss	(9,305)	(40)
Total stockholders' equity	313,396	314,603
Total liabilities and stockholders' equity	$ 3,237,079	$ 3,191,668

See notes to consolidated financial statements.

Consolidated Statements of Income

(in thousands, except share data)	Year Ended December 31, 2005	2004	2003
Interest income			
Loans receivable			
Taxable	$158,436	$139,953	$141,236
Tax exempt	643	581	707
Investment securities			
Taxable	9,612	8,371	6,105
Tax exempt	6,374	6,098	6,270
Federal funds sold	264	165	487
Deposits with financial institutions	695	555	76
Federal Reserve and Federal Home Loan Bank stock	1,185	1,251	649
Total interest income	177,209	156,974	155,530
Interest expense			
Deposits	46,121	33,844	34,858
Securities sold under repurchase agreements	1,612	517	1,521
Federal Home Loan Bank advances	9,777	9,777	9,439
Subordinated debentures, revolving credit lines and term loans	7,432	6,784	6,161
Other borrowings	1,138	663	409
Total interest expense	66,080	51,585	52,388
Net interest income	111,129	105,389	103,142
Provision for loan losses	8,354	5,705	9,477
Net interest income after provision for loan losses	102,775	99,684	93,665
Other income			
Fiduciary activities	7,481	7,632	6,736
Service charges on deposit accounts	11,298	11,638	11,105
Other customer fees	5,094	4,083	4,124
Net realized gains (losses) on sales of available-for-sale securities	(2)	1,188	950
Commission income	3,821	3,088	2,668
Earnings on cash surrender value of life insurance	1,667	1,798	1,347
Net gains and fees on sales of loans	2,902	3,629	6,388
Other income	2,456	1,498	2,584
Total other income	34,717	34,554	35,902
Other expenses			
Salaries and employee benefits	54,059	52,479	50,484
Net occupancy expenses	5,796	5,308	4,894
Equipment expenses	7,562	7,665	8,073
Marketing expenses	2,012	1,709	1,797
Outside data processing fees	4,010	4,920	4,118
Printing and office supplies	1,369	1,580	1,706
Core deposit amortization	3,102	3,375	3,704
Other expenses	16,047	14,606	16,503
Total other expenses	93,957	91,642	91,279
Income before income tax	43,535	42,596	38,288
Income tax expense	13,296	13,185	10,717
Net income	$ 30,239	$ 29,411	$ 27,571
Net income per share:			
Basic	$ 1.64	$ 1.59	$ 1.51
Diluted	1.63	1.58	1.50

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Year Ended December 31, (in thousands)	2005	2004	2003
Net income	$ 30,239	$ 29,411	$ 27,571
Other comprehensive income (loss), net of tax:			
Unrealized losses on securities available for sale:			
Unrealized holding losses arising during the period, net of income tax benefit of $3,562, $1,199 and $1,465	(6,615)	(1,799)	(2,197)
Less: Reclassification adjustment for gains (losses) included in net income, net of income tax (expenses) benefit of $1, $(475) and $(380)	(1)	713	570
Unrealized loss on pension minimum funding liability:			
Unrealized loss arising during the period, net of income tax benefit of $1,767, $150 and $357	(2,651)	(227)	(536)
	(9,265)	(2,285)	(2,231)
COMPREHENSIVE INCOME	$ 20,974	$ 27,126	$ 25,340

Consolidated Statements of Stockholders' Equity

(in thousands, except share data)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balances, January 1, 2003	16,322,748	$ 2,040	$116,503	$138,110	$ 4,476	261,129
Net income for 2003				27,571		27,571
Cash dividends ($.90 per share)				(16,557)		(16,557)
Other comprehensive income (loss), net of tax					(2,231)	(2,231)
Stock issued under employee benefit plans	39,747	5	814			819
Stock issued under dividend reinvestment and stock purchase plan	48,168	6	1,218			1,224
Stock options exercised	66,513	8	1,183			1,191
Stock redeemed	(17,915)	(2)	(486)			(488)
Issuance of stock related to acquisition	1,173,996	147	31,188			31,335
Five percent (5%) stock dividend	879,577	110	(110)			
Cash paid in lieu of fractional shares				(28)		(28)
Balances, December 31, 2003	18,512,834	2,314	150,310	149,096	2,245	303,965
Net income for 2004				29,411		29,411
Cash dividends ($.92 per share)				(17,048)		(17,048)
Other comprehensive income (loss), net of tax					(2,285)	(2,285)
Stock issued under employee benefit plans	45,267	6	897			903
Stock issued under dividend reinvestment and stock purchase plan	50,799	6	1,272			1,278
Stock options exercised	90,338	11	1,393			1,404
Stock redeemed	(193,789)	(24)	(4,702)			(4,726)
Issuance of stock related to acquisition	68,548	9	1,692			1,701
Balances, December 31, 2004	18,573,997	2,322	150,862	161,459	(40)	314,603
Net income for 2005				30,239		30,239
Cash dividends ($.92 per share)				(16,981)		(16,981)
Other comprehensive income (loss), net of tax					(9,265)	(9,265)
Stock issued under employee benefit plans	43,238	6	908			914
Stock issued under dividend reinvestment and stock purchase plan	35,565	4	929			933
Stock options exercised	121,750	15	2,159			2,174
Stock redeemed	(374,598)	(47)	(9,611)			(9,658)
Issuance of stock related to acquisition	16,762	2	435			437
Balances, December 31, 2005	18,416,714	$ 2,302	$145,682	$174,717	$ (9,305)	$ 313,396

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands, except share data)	Year Ended December 31, 2005	2004	2003
Operating activities:			
Net income	$ 30,239	$ 29,411	$ 27,571
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	8,354	5,705	9,477
Depreciation and amortization	5,070	5,064	4,769
Mortgage loans originated for sale	(86,122)	(83,313)	(212,243)
Proceeds from sales of mortgage loans	84,579	82,989	230,745
Net change in			
Interest receivable	(2,372)	(478)	1,368
Interest payable	1,463	(269)	(1,695)
Other adjustments	5,283	842	5,677
Net cash provided by operating activities	46,494	39,951	65,669
Investing activities:			
Net change in interest-bearing deposits	595	(1,202)	(4,573)
Purchases of			
Securities available for sale	(97,861)	(214,393)	(260,467)
Proceeds from maturities of			
Securities available for sale	69,236	116,294	174,003
Proceeds from sales of			
Securities available for sale	4,718	32,336	58,245
Purchase of Federal Reserve and Federal Home Loan Bank stock	(342)	(7,356)	(4,093)
Net change in loans	(35,090)	(83,198)	(56,825)
Net cash paid in acquisition	(213)	(201)	(7,793)
Other adjustments	(6,233)	(6,106)	(2,262)
Net cash used by investing activities	(65,190)	(163,826)	(103,765)
Cash flows from financing activities:			
Net change in			
Demand and savings deposits	(80,986)	89,008	39,400
Certificates of deposit and other time deposits	55,412	(42,959)	14,476
Receipt of borrowings	191,002	181,211	73,303
Repayment of borrowings	(123,657)	(124,763)	(84,755)
Cash dividends	(16,981)	(17,048)	(16,557)
Stock issued under employee benefit plans	914	903	819
Stock issued under dividend reinvestment and stock purchase plan	933	1,278	1,224
Stock options exercised	2,174	1,404	1,191
Stock redeemed	(9,658)	(4,726)	(488)
Cash paid in lieu of issuing fractional shares			(28)
Net cash provided by financing activities	19,153	84,308	28,585
Net change in cash and cash equivalents	457	(39,567)	(9,511)
Cash and cash equivalents, beginning of year	69,960	109,527	119,038
Cash and cash equivalents, end of year	$ 70,417	$ 69,960	$ 109,527
Additional cash flows information:			
Interest paid	$ 64,617	$ 51,854	$ 53,727
Income tax paid	16,775	10,501	13,952

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of First Merchants Corporation ("Corporation"), and its wholly owned subsidiaries, First Merchants Bank, N.A. ("First Merchants"), The Madison Community Bank, N.A. ("Madison"), First United Bank, N.A. ("First United"), United Communities National Bank ("United Communities"), First National Bank ("First National"), Decatur Bank and Trust Company, N.A. ("Decatur"), Frances Slocum Bank & Trust Company, N.A. ("Frances Slocum"), Lafayette Bank and Trust Company, N.A. ("Lafayette"), and Commerce National Bank ("Commerce National"), (collectively the "Banks"), Merchants Trust Company, National Association ("MTC"), First Merchants Insurance Services, Inc. ("FMIS"), First Merchants Reinsurance Company ("FMRC")and Indiana Title Insurance Company ("ITIC"), conform to generally accepted accounting principles and reporting practices followed by the banking industry. The more significant of the policies are described below. Effective January 1, 2006, First United was merged into First Merchants, and the name of the continuing institution is First Merchants Bank, N.A.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Corporation is a financial holding company whose principal activity is the ownership and management of the Banks and operates in a single significant business segment. The Banks operate under national bank charters and provide full banking services. As national banks, the Banks are subject to the regulation of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

The Banks generate commercial, mortgage, and consumer loans and receive deposits from customers located primarily in north-central and east-central Indiana and Butler, Franklin and Hamilton counties in Ohio. The Banks' loans are generally secured by specific items of collateral, including real property, consumer assets and business assets.

CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and all its subsidiaries, after elimination of all material intercompany transactions.

INVESTMENT SECURITIES-Debt securities are classified as held to maturity when the Corporation has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported separately in accumulated other comprehensive income, net of tax.

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the length of time the fair value has been below cost, the expectation for that security's performance, the credit worthiness of the issuer and the Corporation's ability to hold the security to maturity. A decline in value that is considered to be other-than temporary is recorded as a loss within other operating income in the consolidated statements of income.

LOANS HELD FOR SALE are carried at the lower of aggregate cost or market. Market is determined using the aggregate method. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income based on the difference between estimated sales proceeds and aggregate cost.

LOANS held in the Corporation's portfolio are carried at the principal amount outstanding. Certain nonaccrual and substantially delinquent loans may be considered to be impaired. A loan is impaired when, based on current information or events, it is probable that the Banks will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. In applying the provisions of Statement of Financial Accounting Standards ("SFAS") No. 114, the Corporation considers its investment in one-to-four family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. Interest income is accrued on the principal balances of loans, except for installment loans with add-on interest, for which a method that approximates the level yield method is used. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed when considered uncollectable. Interest income is subsequently recognized only to the extent cash payments are received. Certain loan fees and direct costs are being deferred and amortized as an adjustment of yield on the loans.

ALLOWANCE FOR LOAN LOSSES is maintained to absorb losses inherent in the loan portfolio and is based on ongoing, quarterly assessments of the probable losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current operating results. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Corporation's methodology for assessing the appropriateness of the allowance consists of three key elements - the determination of the appropriate reserves for specifically identified loans, historical losses, and economic, environmental or qualitative factors.

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Larger commercial loans that exhibit probable or observed credit weaknesses are subject to individual review. Where appropriate, reserves are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to the Corporation. Included in the review of individual loans are those that are impaired as provided in SFAS No. 114. Any allowances for impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of the underlying collateral. The Corporation evaluates the collectibility of both principal and interest when assessing the need for a loss accrual. Historical loss rates are applied to other commercial loans not subject to specific reserve allocations.

Homogenous loans, such as consumer installment and residential mortgage loans are not individually risk graded. Reserves are established for each pool of loans using loss rates based on a five year average net charge-off history by loan category.

Historical loss allocations for commercial and consumer loans may be adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. Factors which management considers in the analysis include the effects of the national and local economies, trends in the volume of loans, changes in mix, concentration of loans in specific industries, asset quality trends (delinquencies, charge-offs and nonaccrual loans), risk management and loan administration, changes in the internal lending policies and credit standards, collection practices and examination results from bank regulatory agencies and the Corporation's internal loan review.

An unallocated reserve, primarily based on the factors noted above, is maintained to recognize the imprecision in estimating and measuring loss when evaluating reserves for individual loans or pools of loans. Allowances on individual loans and historical loss allocations are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions.

PREMISES AND EQUIPMENT are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line and declining balance methods based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred, while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

FEDERAL RESERVE AND FEDERAL HOME LOAN BANK STOCK are required investments for institutions that are members of the Federal Reserve Bank ("FRB") and Federal Home Loan Bank ("FHLB") systems. The required investment in the common stock is based on a predetermined formula.

INTANGIBLE ASSETS that are subject to amortization, including core deposit intangibles, are being amortized on both the straight-line and accelerated basis over 10 years. Intangible assets are periodically evaluated as to the recoverability of their carrying value.

(table dollar amounts in thousands, except share data)

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

GOODWILL is maintained by applying the provisions of SFAS No. 142. Goodwill is reviewed for impairment annually in accordance with this statement with any loss recognized through the income statement, at that time.

INCOME TAX in the consolidated statements of income includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. The Corporation files consolidated income tax returns with its subsidiaries.

STOCK OPTIONS are granted for a fixed number of shares to employees. The Corporation's stock-based employee compensation plans are described more fully in Note 16. The Corporation's stock option plans are accounted for in accordance with Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations.

APB No. 25 requires compensation expense for stock options to be recognized only if the market price of the underlying stock exceeds the exercise price on the date of the grant. Accordingly, the Corporation recognized compensation expense of $12,000 in 2003, related to specific grants in which the market price exceeded the exercise price. For all remaining grants, no stock-based employee compensation cost is reflected in net income, as options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date.

During the quarter ended December 31, 2005, the Corporation accelerated the vesting of options previously granted, and the vesting period for the 2005 grants was established so the those grants would be fully vested by year-end. The terms of the acceleration are such that no expense will be recognized by the Corporation on those grants, although it has reported the impact of the acceleration in its proforma disclosures of earnings per share.

The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Year Ended December 31		
	2005	2004	2003
Net income, as reported	$30,239	$29,411	$27,571
Add: Total stock-based employee compensation cost included in reported net income, net of income taxes			12
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(2,159)	(1,083)	(1,034)
Pro forma net income	$28,080	$28,328	$26,549
Earnings per share:			
Basic - as reported	$ 1.64	$ 1.59	$ 1.51
Basic - pro forma	$ 1.52	$ 1.53	$ 1.46
Diluted - as reported	$ 1.63	$ 1.58	$ 1.50
Diluted - pro forma	$ 1.51	$ 1.52	$ 1.45

EARNINGS PER SHARE have been computed based upon the weighted average common and common equivalent shares outstanding during each year.

(table dollar amounts in thousands, except share data)

NOTE 2

BUSINESS COMBINATIONS

Effective September 1, 2005, the Corporation acquired Trustcorp Financial Services of Greenville, Inc., an Ohio corporation, which was merged into FMIS, a wholly-owned subsidiary of the Corporation. The Corporation issued 16,762 shares of its common stock at a cost of $26.10 per share to complete the transaction. The acquisition was deemed to be an immaterial acquisition.

Effective October 15, 2004, the Corporation acquired Mangas Agencies, Inc., which was merged into FMIS, a wholly-owned subsidiary of the Corporation. The Corporation issued 68,548 shares of its common stock at a cost of $24.80 per share to complete the transaction. The acquisition was deemed to be an immaterial acquisition.

On March 1, 2003, the Corporation acquired 100 percent of the outstanding stock of CNBC Bancorp, the holding company of Commerce National and CNBC Trust I. Commerce National is a national chartered bank located in Columbus, Ohio. CNBC Bancorp was merged into the Corporation, and Commerce National maintained its national charter as a wholly-owned subsidiary of the Corporation. CNBC Trust I is also maintained as a wholly-owned subsidiary of the Corporation. The Corporation issued approximately 1,225,242 shares of its common stock and approximately $24,562,000 in cash to complete the transaction. As a result of the acquisition, the Corporation will have an opportunity to increase its customer base and continue to increase its market share. The purchase had a recorded acquisition price of $55,729,000, including goodwill of $30,291,000 none of which is deductible for tax purposes. Additionally, core deposit intangibles totaling $8,171,000 were recognized and are being amortized over 10 years using the 150 percent declining balance method.

The combination was accounted for under the purchase method of accounting. All assets and liabilities were recorded at their fair values as of March 1, 2003. The purchase accounting adjustments are being amortized over the life of the respective asset or liability. Commerce National's results of operations are included in the Corporation's consolidated income statement beginning March 1, 2003. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Investments	$ 12,500
Loans	298,702
Premises and equipment	1,293
Core deposit intangibles	8,171
Goodwill	30,291
Other	20,789
Total assets acquired	371,746
Deposits	271,537
Other	44,480
Total liabilities acquired	316,017
Net assets acquired	$ 55,729

(table dollar amounts in thousands, except share data)

NOTE 2

BUSINESS COMBINATIONS continued

The following proforma disclosures, including the effect of the purchase accounting adjustments, depict the results of operations as though the CNBC Bancorp merger had taken place on January 1, 2003.

	Year Ended December 31, 2003
Net Interest Income...........	$104,797
Net Income....................	23,601
Per Share - combined:	
Basic Net Income...........	1.28
Diluted Net Income.........	1.27

Effective January 1, 2003, the Corporation formed MTC, a wholly-owned subsidiary of the Corporation, through a capital contribution totaling approximately $2,038,000. On January 1, 2003, MTC purchased the trust operations of First Merchants, First National and Lafayette for a fair value acquisition price of $20,687,000. MTC united the trust and asset management services of all affiliate banks of the Corporation. All intercompany transactions related to this purchase by MTC have been eliminated in the consolidated financial statements of the Corporation.

NOTE 3

RESTRICTION ON CASH AND DUE FROM BANKS

The Banks are required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2005, was $5,394,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

NOTE 4

INVESTMENT SECURITIES

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Available for sale at December 31, 2005				
U.S. Treasury	$ 1,586		$ 1	$ 1,585
U.S. Government-sponsored agency securities	83,026	$ 1	1,836	81,191
State and municipal	167,095	2,159	1,131	168,123
Mortgage-backed securities	168,019	139	5,656	162,502
Other asset-backed securities	1			1
Marketable equity securities	9,660		435	9,225
Total available for sale	429,387	2,299	9,059	422,627
Held to maturity at December 31, 2005				
State and municipal	11,609	283	412	11,480
Mortgage-backed securities	30			30
Total held to maturity	11,639	283	412	11,510
Total investment securities	$441,026	$ 2,582	$ 9,471	$434,137
Available for sale at December 31, 2004				
U.S. Treasury	$ 1,745		$ 1	$ 1,744
U.S. Government-sponsored agency securities	65,325	$ 73	332	65,066
State and municipal	150,284	5,243	82	155,445
Mortgage-backed securities	183,200	485	1,980	181,705
Other asset-backed securities	18			18
Marketable equity securities	12,191	8		12,199
Total available for sale	412,763	5,809	2,395	416,177
Held to maturity at December 31, 2004				
State and municipal	5,306	162		5,468
Mortgage-backed securities	52			52
Total held to maturity	5,358	162		5,520
Total investment securities	$418,121	$ 5,971	$ 2,395	$421,697

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. The historical cost of these investments totaled $337,959,000 and $192,366,000 at December 31, 2005 and 2004, respectively. Total fair value of these investments was $328,488,000 and $189,971,000, which is approximately 75.7 and 45.1 percent of the Corporation's available-for-sale and held-to-maturity investment portfolio at December 31, 2005 and 2004, respectively. These declines primarily resulted from recent increases in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

NOTE 4

INVESTMENT SECURITIES continued

The following tables show the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2005 and 2004:

	Less than 12 Months		12 Months or Longer		Total	
	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES
Temporarily impaired investment securities at December 31, 2005:						
U.S. Treasury	$ 1,487	$ (1)			$ 1,487	$ (1)
U.S. Government-sponsored agency securities	31,692	(581)	$ 45,466	$ (1,255)	77,158	(1,836)
State and municipal	90,905	(1,501)	2,124	(42)	93,029	(1,543)
Mortgage-backed securities	59,595	(1,511)	96,120	(4,141)	155,715	(5,652)
Marketable equity securities	27	(8)	1,072	(431)	1,099	(439)
Total temporarily impaired investment securities	$183,706	$ (3,602)	$144,782	$ (5,869)	$328,488	$ (9,471)

	Less than 12 Months		12 Months or Longer		Total	
	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES
Temporarily impaired investment securities at December 31, 2004:						
U.S. Treasury	$ 1,496	$ (1)			$ 1,496	$ (1)
U.S. Government-sponsored agency securities	46,227	(303)	$ 1,472	$ (29)	47,699	(332)
State and municipal	2,976	(20)	1,094	(62)	4,070	(82)
Mortgage-backed securities	109,213	(1,129)	27,493	(851)	136,706	(1,980)
Total temporarily impaired investment securities	$159,912	$ (1,453)	$ 30,059	$ (942)	$189,971	$ (2,395)

The amortized cost and fair value of securities available for sale and held to maturity at December 31, 2005, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AVAILABLE FOR SALE		HELD TO MATURITY	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Maturity distribution at December 31, 2005:				
Due in one year or less	$ 12,838	$ 12,845	$ 733	$ 734
Due after one through five years	170,744	168,207	1,943	1,976
Due after five through ten years	52,629	53,734	960	928
Due after ten years	15,496	16,112	7,973	7,842
	251,707	250,898	11,609	11,480
Mortgage-backed securities	168,019	162,503		
Other asset-backed securities	1	1	30	30
Marketable equity securities	9,660	9,225		
Totals	$429,387	$422,627	$ 11,639	$ 11,510

Securities with a carrying value of approximately $190,079,000 and $157,356,000 were pledged at December 31, 2005 and 2004 to secure certain deposits and securities sold under repurchase agreements, and for other purposes as permitted or required by law.

Proceeds from sales of securities available for sale during 2005, 2004 and 2003 were $4,718,000, $32,336,000, and $58,245,000. Gross gains of $28,000, $1,502,000 and

(table dollar amounts in thousands, except share data)

NOTE 4

INVESTMENT SECURITIES continued

$950,000 in 2005, 2004 and 2003, and gross losses of $30,000 and $314,000 in 2005 and 2004 were realized on those sales.

NOTE 5

LOANS AND ALLOWANCE

	2005	2004
Loans at December 31:		
Commercial and industrial loans	$ 461,102	$ 451,227
Agricultural production financing and other loans to farmers	95,130	98,902
Real estate loans:		
Construction	174,783	164,738
Commercial and farmland	734,865	709,163
Residential	751,217	761,163
Individuals' loans for household and other personal expenditures	200,139	198,532
Tax-exempt loans	8,263	8,203
Lease financing receivables, net of unearned income	8,713	11,311
Other loans	23,215	24,812
	2,457,427	2,428,051
Allowance for loan losses	(25,188)	(22,548)
Total loans	$ 2,432,239	$ 2,405,503

	2005	2004	2003
Allowance for loan losses:			
Balance, January 1	$ 22,548	$ 25,493	$ 22,417
Allowance acquired in acquisitions			3,727
Provision for losses	8,354	5,705	9,477
Recoveries on loans	2,030	2,251	2,011
Loans charged off	(7,744)	(10,901)	(12,139)
Balance, December 31	$ 25,188	$ 22,548	$ 25,493

Information on nonaccruing, contractually past due 90 days or more other than nonaccruing and restructured loans is summarized below:

	2005	2004	2003
At December 31:			
Non-accrual loans	$10,030	$15,355	$19,453
Loans contractually past due 90 days or more other than nonaccruing	3,965	1,907	6,530
Restructured loans	310	2,019	641
Total non-performing loans	$14,305	$19,281	$26,624

Nonaccruing loans are loans which are reclassified to a nonaccruing status when in management's judgment the collateral value and financial condition of the borrower do not justify accruing interest. Interest previously recorded, but not deemed collectible, is reversed and charged against current income. Interest income on these loans is then recognized when collected.

Restructured loans are loans for which the contractual interest rate has been reduced or other concessions are granted to the borrower, because of a deterioration in the financial condition of the borrower resulting in the inability of the borrower to meet the original contractual terms of the loans.

(table dollar amounts in thousands, except share data)

NOTE 5

LOANS AND ALLOWANCE continued

Information on impaired loans is summarized below:	2005	2004	2003
As of, and for the year ending December 31:			
Impaired loans with an allowance	$ 7,540	$ 7,728	$12,725
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	44,840	41,683	32,047
Total impaired loans	$52,380	$49,411	$44,772
Total impaired loans as a percent of total loans	2.13%	2.03%	1.90%
Allowance for impaired loans (included in the Corporation's allowance for loan losses)	$ 2,824	$ 1,673	$ 5,728
Average balance of impaired loans	44,790	59,568	50,245
Interest income recognized on impaired loans	3,747	4,166	3,259
Cash basis interest included above	3,951	3,029	2,714

NOTE 6

PREMISES AND EQUIPMENT

	2005	2004
Cost at December 31:		
Land	$ 8,653	$ 8,281
Buildings and leasehold improvements	43,001	40,520
Equipment	40,155	38,852
Total cost	91,809	87,653
Accumulated depreciation and amortization	(52,392)	(49,399)
Net	$ 39,417	$ 38,254

The Corporation is committed under various noncancelable lease contracts for certain subsidiary office facilities and equipment. Total lease expense for 2005, 2004 and 2003 was $2,391,000, $2,151,000 and $1,629,000, respectively. The future minimum rental commitments required under the operating leases in effect at December 31, 2005, expiring at various dates through the year 2016 are as follows for the years ending December 31:

2006	$2,055
2007	1,756
2008	1,275
2009	1,111
2010	1,057
After 2010	1,649
Total future minimum obligations	$8,903

(table dollar amounts in thousands, except share data)

NOTE 7

GOODWILL

The changes in the carrying amount of goodwill at December 31 are noted below. No impairment loss was recorded in 2005 and 2004.

	2005	2004
Balance, January 1	$ 120,615	$ 118,679
Goodwill acquired	651	1,900
Adjustments to previously acquired goodwill		36
Balance, December 31	$ 121,266	$ 120,615

NOTE 8

CORE DEPOSIT INTANGIBLES

The carrying basis and accumulated amortization of recognized core deposit intangibles at December 31 were:

	2005	2004
Gross carrying amount	$ 31,073	$ 31,073
Accumulated amortization	(13,506)	(10,404)
Core deposit intangibles	$ 17,567	$ 20,669

Amortization expense for the years ended December 31, 2005, 2004 and 2003, was $3,102,000, $3,375,000 and $3,704,000, respectively. Estimated amortization expense for each of the following five years is:

2006	$ 3,046
2007	3,046
2008	3,046
2009	3,046
2010	2,937
After 2010	2,397
	$17,518

NOTE 9

DEPOSITS

	2005	2004
Deposits at December 31:		
Demand deposits	$ 690,923	$ 703,989
Savings deposits	566,212	634,132
Certificates and other time deposits of $100,000 or more	276,679	258,362
Other certificates and time deposits	848,762	811,667
Total deposits	$2,382,576	$2,408,150

(table dollar amounts in thousands, except share data)

NOTE 9

DEPOSITS continued

Certificates and other time deposits maturing in years ending December 31:	
2006	$ 677,656
2007	278,882
2008	107,440
2009	37,568
2010	19,122
After 2010	4,773
	$1,125,441

NOTE 10

BORROWINGS

	2005	2004
Borrowings at December 31:		
Federal funds purchased	$ 50,000	$ 32,550
Securities sold under repurchase agreements	106,415	87,472
Federal Home Loan Bank advances	247,865	223,663
Subordinated debentures, revolving credit lines and term loans	103,956	97,206
Total borrowings	$508,236	$440,891

Securities sold under repurchase agreements consist of obligations of the Banks to other parties. The obligations are secured by U.S. Treasury, U.S. Government-sponsored agency security obligations and corporate asset-backed securities. The maximum amount of outstanding agreements at any month-end during 2005 and 2004 totaled $106,415,000 and $87,472,000, and the average of such agreements totaled $77,897,000 and $62,669,000 during 2005 and 2004.

Maturities of securities sold under repurchase agreements; Federal Home Loan Bank advances; and subordinated debentures, revolving credit lines and term loans as of December 31, 2005, are as follows:

	SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	FEDERAL HOME LOAN BANK ADVANCES	SUBORDENATED DEBENTURES REVOLVING CREDIT LINES AND TERM LOANS
	AMOUNT	AMOUNT	AMOUNT
Maturities in years ending December 31:			
2006	$106,415	$ 56,335	$ 15,000
2007		32,495	
2008		32,839	
2009		11,382	
2010		35,192	
After 2010		79,622	88,956
Total	$106,415	$247,865	$103,956

NOTE 10

BORROWINGS continued

The terms of a security agreement with the FHLB require the Corporation to pledge, as collateral for advances, qualifying first mortgage loans and all otherwise unpledged investment securities in an amount equal to at least 145 percent of these advances. Advances are subject to restrictions or penalties in the event of prepayment. The total available remaining borrowing capacity from the FHLB at December 31, 2005, was $62,228,000.

Subordinated Debentures, Revolving Credit Lines and Term Loans. Three borrowings were outstanding on December 31, 2005, for $103,956,000.

- First Merchants Capital Trust I. The subordinated debenture, entered into on April 12, 2002, for $54,832,000 will mature on June 20, 2032. The Corporation may redeem the debenture no earlier than June 30, 2007, subject to the prior approval of the Federal Reserve, as required by law or regulation. Interest is fixed at 8.75 percent and payable on March 31, June 30, September 30 and December 31 of each year.

- CNBC Statutory Trust I. As part of the March 1, 2003, acquisition of CNBC Bancorp, the Corporation assumed $4,124,000 of a junior subordinated debenture entered into on February 22, 2001. The subordinated debenture of $4,124,000 will mature on February 22, 2031. Interest is fixed at 10.20 percent and payable on February 22 and August 22 of each year. The Corporation may redeem the debenture, in whole or in part, at its option commencing February 22, 2011, at a redemption price of 105.10 percent of the outstanding principal amount and, thereafter, at a premium which declines annually. On or after February 22, 2021, the securities may be redeemed at face value with prior approval of the Board of Governors of the Federal Reserve System.

- LaSalle Bank, N.A. A Loan and Subordinated Debenture Loan Agreement ("LaSalle Agreement") was entered into with LaSalle Bank, N.A. on March 25, 2003 and later amended as of March 9, 2005. The LaSalle Agreement includes three credit facilities:

    - The Term Loan of $5,000,000 matures on March 7, 2012. Interest is calculated at a floating rate equal to the lender's prime rate or LIBOR plus 1.00 percent. The Term Loan is secured by 100 percent of the common stock of First Merchants. The Agreement contains several restrictive covenants, including the maintenance of various capital adequacy levels, asset quality and profitability ratios, and certain restrictions on dividends and other indebtedness.

    - The Revolving Loan had a balance of $15,000,000 at December 31, 2005. Interest is payable quarterly based on LIBOR plus 1 percent. Principal and interest are due on or before March 7,2006. The total principal amount outstanding at any one time may not exceed $20,000,000. The Revolving Loan is secured by 100 percent of the common stock of First Merchants. The Agreement contains several restrictive covenants, including the maintenance of various capital adequacy levels,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

NOTE 10

BORROWINGS continued

asset quality and profitability ratios, and certain restrictions on dividends and other indebtedness.

- The Subordinated Debenture of $25,000,000 matures on March 7, 2012. Interest is calculated at a floating rate equal to, at the Corporation's option, either the lender's prime rate or LIBOR plus 1.50 percent. The Subordinated Debenture is treated as Tier 2 Capital for regulatory capital purposes.

NOTE 11

LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The loans are serviced primarily for the Federal Home Loan Mortgage Corporation, and the unpaid balances totaled $107,730,000, $113,344,000 and $105,865,000 at December 31, 2005, 2004 and 2003. The amount of capitalized servicing assets is considered immaterial.

NOTE 12

INCOME TAX

	2005	2004	2003
Income tax expense for the year ended December 31:			
Currently payable:			
Federal	$ 14,814	$ 11,934	$ 9,475
State	2,231	1,772	1,569
Deferred:			
Federal	(3,248)	(615)	(597)
State	(501)	94	270
Total income tax expense	$ 13,296	$ 13,185	$ 10,717
Reconciliation of federal statutory to actual tax expense:			
Federal statutory income tax at 34%	$ 14,802	$ 14,483	$ 13,030
Tax-exempt interest	(2,141)	(2,098)	(2,198)
Graduated tax rates	345	335	289
Effect of state income taxes	1,132	1,178	1,213
Earnings on life insurance	(439)	(472)	(512)
Tax credits	(395)	(274)	(317)
Other	(8)	33	(788)
Actual tax expense	$ 13,296	$ 13,185	$ 10,717

Tax expense (benefit) applicable to security gains and losses for the years ended December 31, 2005, 2004 and 2003, was $(1,000), $475,000 and $380,000, respectively.

(table dollar amounts in thousands, except share data)

NOTE 12

INCOME TAX continued

A cumulative net deferred tax asset (liability) is included in the consolidated balance sheets. The components of the net asset (liability) are as follows:

	2005	2004
Deferred tax asset (liability) at December 31:		
Assets:		
Differences in accounting for loan losses	$10,609	$ 9,438
Deferred compensation	2,768	2,707
Difference in accounting for pensions and other employee benefits	2,707	
State income tax	311	524
Net unrealized loss on securities available for sale	2,365	
Other	255	222
Total assets	19,015	12,891
Liabilities:		
Differences in depreciation methods	3,450	3,469
Differences in accounting for loans and securities	6,505	8,181
Differences in accounting for loan fees	613	628
Differences in accounting for pensions and other employee benefits		339
Net unrealized gain on securities available for sale		2,220
Other	2,575	1,317
Total liabilities	13,143	16,154
Net deferred tax asset (liability)	$ 5,872	$(3,263)

NOTE 13

COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business there are outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Banks use the same credit policies in making such commitments as they do for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk as of December 31, were as follows:

	2005	2004
Commitments to extend credit	$574,384	$540,087
Standby letters of credit	30,410	22,024

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Banks evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Banks upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may

NOTE 13

COMMITMENTS AND CONTINGENT LIABILITIES continued

include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party.

The Corporation and subsidiaries are also subject to claims and lawsuits, which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Corporation.

NOTE 14

STOCKHOLDERS' EQUITY

National banking laws restrict the maximum amount of dividends that a bank may pay in any calendar year. National banks are limited to the bank's retained net income (as defined) for the current year plus those for the previous two years. At December 31, 2005, First National and Frances Slocum had no retained net profits available for 2006 dividends to the Corporation. The amount at December 31, 2005, available for 2006 dividends from First Merchants, Madison, First United, United Communities, Decatur, Lafayette, Commerce National and MTC to the Corporation totaled $3,690,000, $5,135,000, $1,102,000, $2,484,000, $183,000, $1,190,000, $2,439,000 and $837,000, respectively.

Total stockholders' equity for all subsidiaries at December 31, 2005, was $417,712,000, of which $400,652,000 was restricted from dividend distribution to the Corporation.

The Corporation has a Dividend Reinvestment and Stock Purchase Plan, enabling stockholders to elect to have their cash dividends on all shares held automatically reinvested in additional shares of the Corporation's common stock. In addition, stockholders may elect to make optional cash payments up to an aggregate of $2,500 per quarter for the purchase of additional shares of common stock. The stock is credited to participant accounts at fair market value. Dividends are reinvested on a quarterly basis.

On August 15, 2003 and August 13, 2002, the Board of Directors of the Corporation declared a five percent (5%) stock dividend on its outstanding common shares. The new shares were distributed on September 12, 2003 and September 13, 2002, to holders of record on August 29, 2003 and August 30, 2002, respectively.

NOTE 15

REGULATORY CAPITAL

The Corporation and Banks are subject to various regulatory capital requirements administered by the federal banking agencies and are assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated according to the regulations: total risk adjusted capital, Tier 1 capital, and Tier 1 leverage ratios. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures of the entity. The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios.

There are five capital categories defined in the regulations, ranging from well capitalized to critically undercapitalized. Classification of a bank in any of the undercapitalized categories can result in actions by regulators that could have a material effect on a bank's operations.

At December 31, 2005, the management of the Corporation believes that it meets all capital adequacy requirements to which it is subject. The most recent notifications from the regulatory agencies categorized the Corporation and Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain a minimum total capital to risk-weighted assets, Tier I capital to risk-weighted assets and Tier I capital to average assets of 10 percent, 6 percent and 5 percent, respectively. There have been no conditions or events since that notification that management believes have changed this categorization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

NOTE 15

REGULATORY CAPITAL continued

Actual and required capital amounts and ratios are listed below.

	2005				2004			
	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL (1)		ACTUAL		REQUIRED FOR ADEQUATE CAPITAL (1)	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
December 31								
Total Capital (1)(2)(to risk-weighted assets)								
Consolidated	$285,823	11.72%	$195,449	8.00%	$275,786	11.57%	$190,736	8.00%
First Merchants	69,691	11.93	46,747	8.00	68,064	11.47	47,474	8.00
Madison	27,386	11.82	18,542	8.00	25,496	11.36	17,962	8.00
First United	7,988	11.09	5,761	8.00	7,703	11.86	5,196	8.00
Randolph County					8,847	11.58	6,111	8.00
Union County					16,293	12.00	10,858	8.00
United Communities	26,057	11.66	17,872	8.00				
First National	10,243	11.29	7,260	8.00	10,198	11.42	7,146	8.00
Decatur	11,597	11.75	7,895	8.00	11,419	11.62	7,862	8.00
Frances Slocum	18,907	13.52	11,188	8.00	17,491	12.93	10,825	8.00
Lafayette	74,089	11.49	51,568	8.00	71,962	11.35	50,701	8.00
Commerce National	42,025	11.11	30,539	8.00	36,829	10.70	27,532	8.00
Tier I Capital (1)(2)(to risk-weighted assets)								
Consolidated	$235,635	9.66%	$ 97,725	4.00%	$228,234	9.57%	$ 95,368	4.00%
First Merchants	63,550	10.88	23,374	4.00	62,310	10.50	23,737	4.00
Madison	25,115	10.84	9,271	4.00	23,671	10.54	8,981	4.00
First United	7,237	10.05	2,880	4.00	7,100	10.93	2,598	4.00
Randolph County					7,998	10.47	3,055	4.00
Union County					14,596	10.75	5,429	4.00
United Communities	23,711	10.61	8,936	4.00				
First National	9,489	10.46	3,630	4.00	9,322	10.44	3,573	4.00
Decatur	10,808	10.95	3,948	4.00	10,635	10.82	3,931	4.00
Frances Slocum	17,152	12.27	5,594	4.00	15,793	11.67	5,412	4.00
Lafayette	67,795	10.52	25,784	4.00	67,028	10.58	25,350	4.00
Commerce National	32,350	8.55	15,270	4.00	27,648	8.03	13,766	4.00
Tier I Capital (1)(2)(to average assets)								
Consolidated	$235,635	7.70%	$122,396	4.00%	$228,234	7.50%	$121,711	4.00%
First Merchants	63,550	8.28	30,701	4.00	62,310	7.78	32,024	4.00
Madison	25,115	9.38	10,716	4.00	23,671	9.01	10,510	4.00
First United	7,237	7.83	3,696	4.00	7,100	7.68	3,700	4.00
Randolph County					7,998	8.42	3,799	4.00
Union County					14,596	7.47	7,814	4.00
United Communities	23,711	7.93	11,953	4.00				
First National	9,489	8.20	4,630	4.00	9,322	7.99	4,664	4.00
Decatur	10,808	8.47	5,104	4.00	10,635	7.96	5,342	4.00
Frances Slocum	17,152	9.96	6,886	4.00	15,793	9.58	6,593	4.00
Lafayette	67,795	7.86	34,484	4.00	67,028	7.94	33,747	4.00
Commerce National	32,350	7.41	17,641	4.00	27,648	7.01	15,785	4.00

(1) As defined by regulatory agencies

(2) Effective January 1, 2005, The Union County National Bank ("Union County") was merged into The Randolph County Bank, N.A. ("Randolph County") and the name of the continuing institution is United Communities National Bank ("United Communities").

NOTE 16

EMPLOYEE BENEFIT PLANS

The Corporation's defined-benefit pension plans cover substantially all of the Corporation's employees. The benefits are based primarily on years of service and employees' pay near retirement. Contributions are intended to provide not only for benefits attributed to service-to-date, but also for those expected to be earned in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

The table below sets forth the plans' funded status and amounts recognized in the consolidated balance sheets at December 31, using measurement dates of September 30, 2005 and 2004.

	December 31 2005	2004
Change in benefit obligation		
Benefit obligation at beginning of year	$ 50,358	$ 45,579
Service cost	578	1,920
Interest cost	2,633	2,789
Actuarial (gain) loss	(677)	1,917
Benefits paid	(2,116)	(1,847)
Benefit obligation at end of year	50,776	50,358
Change in plan assets		
Fair value of plan assets at beginning of year	39,027	33,940
Actual return on plan assets	2,978	3,080
Benefits paid	(2,116)	(1,847)
Employer contributions	24	3,854
Fair value of plan assets at end of year	39,913	39,027
Unfunded status	(10,863)	(11,331)
Unrecognized net actuarial loss	10,268	10,944
Unrecognized prior service cost	62	1,697
Unrecognized transition asset		(27)
Prepaid benefit cost (liability)	(533)	1,283
Additional pension liability	(8,199)	(5,416)
Net minimum liability	$ (8,732)	$ (4,133)
Amounts recognized in the balance sheets consist of:		
Prepaid benefit cost (liability)	$ (533)	$ 1,283
Additional pension liability	(8,199)	(5,416)
Intangible asset	62	1,697
Deferred taxes	3,255	1,487
Accumulated other comprehensive loss	4,882	2,232
Net amount recognized	$ (533)	$ 1,283

In January 2005, the Board of Directors of the Corporation approved the curtailment of the accumulation of defined benefits for future services provided by certain participants in the First Merchants Corporation Retirement Pension Plan (the "Plan"). Employees of the Corporation and certain of its subsidiaries who are participants in the Plan were notified that, on and after March 1, 2005, no additional pension benefits will be earned by employees who have not both attained the age of fifty-five (55) and accrued at least ten (10) years of "Vesting Service". As a result of this action, the Corporation incurred a $1,630,000 pension curtailment loss to record previously unrecognized prior service costs in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Plans and for Termination Benefits." This loss was recognized and recorded by the Corporation in 2005.

At December 31, 2005 and 2004, the plans' accumulated benefit obligation totaled $48,646,000 and $43,161,000, respectively. Projected future benefit payments in years ending December 31 are as follows:

2006	$ 2,068
2007	2,200
2008	2,269
2009	2,396
2010	2,560
2011 to 2015	15,431

(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

The Corporation's planned and required contributions to its defined-benefit pension plans in 2006 total $467,000. The Corporation's required contributions paid to its defined-benefit pension plans in 2005 totaled $24,000.

At September 30, 2005 the plans' assets were allocated 66 percent to equity securities, 32 percent to debt securities, and 2 percent to other plan assets. The targeted allocation for those categories of plan assets are 45 to 75 percent, 25 to 55 percent, and 0 to 10 percent, respectively.

At September 30, 2004 the plans' assets were allocated 68 percent to equity securities, 28 percent to debt securities, and 4 percent to real estate and other plan assets. The targeted allocation for those categories of plan assets are 40 to 80 percent, 20 to 60 percent and 1 to 15 percent, respectively.

	2005	2004	2003
Pension cost includes the following components:			
Service cost-benefits earned during the year	$ 578	$ 1,920	$ 1,564
Interest cost on projected benefit obligation	2,633	2,789	2,617
Actual return on plan assets	(2,978)	(3,080)	(3,876)
Net amortization and deferral	(23)	614	1,617
Pension curtailment loss	1,630		
Total pension cost	$ 1,840	$ 2,243	$ 1,922

	2005	2004	2003
Assumptions used in the accounting as of December 31 were:			
Discount rate	5.50%	6.00%	6.25%
Rate of increase in compensation	4.00%	4.00%	4.00%
Expected long-term rate of return on assets	7.50%	8.00%	8.00%

The above assumptions used to measure benefit obligations as of the plan's measurement date were the same assumptions used to determine the net benefit cost.

At September 30, 2005 and 2004, the Corporation based its estimate of the expected long-term rate of return on analysis of the historical returns of the plans and current market information available. The plans' investment strategies are to provide for preservation of capital with an emphasis on long-term growth without undue exposure to risk. The assets of the plans' are invested in accordance with the plans' Investment Policy Statement, subject to strict compliance with ERISA and any other applicable statutes.

The plans' risk management practices include quarterly evaluations of investment managers, including reviews of compliance with investment manager guidelines and restrictions; ability to exceed performance objectives; adherence to the investment philosophy and style; and ability to exceed the performance of other investment managers. The evaluations are reviewed by management with appropriate follow-up and actions taken, as deemed necessary. The Investment Policy Statement generally allows investments in cash and cash equivalents, real estate, fixed income debt securities and equity securities, and specifically prohibits investments in derivatives, options, futures, private placements, short selling, non-marketable securities and purchases of non-investment grade bonds.

(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

At December 31, 2005, the maturities of the plans' debt securities ranged from 135 days to 12.4 years, with a weighted average maturity of 3.1 years. At December 31, 2004, the maturities of the plans' debt securities ranged from 14 days to 6.2 years, with a weighted average maturity of 2.9 years.

The 1994 Stock Option Plan reserved 546,978 shares of Corporation common stock for the granting of options to certain employees and non-employee directors. The exercise price of the shares may not be less than the fair market value of the shares upon the grant of the option. Options become 100 percent vested when granted and are fully exercisable generally six months after the date of the grant, for a period of ten years. No shares remain available for grant under the 1994 Plan.

The 1999 Long-term Equity Incentive Plan, which became effective as of July 1, 1999, authorizes the Corporation to grant stock-based incentive awards, including stock options, to eligible employees of the Corporation or its subsidiaries. The aggregate number of shares that are available for grants under that Plan in any calendar year is equal to the sum of: (a) 1 percent of the number of common shares of the Corporation outstanding as of the last day of the preceding calendar year; plus (b) the number of shares that were available for grants, but not granted, under the Plan in any previous year; but in no event will the number of shares available for grants in any calendar year exceed 1.5 percent of the number of common shares of the Corporation outstanding as of the last day of the preceding calendar year. Options, which have a ten year life, become 100 percent vested ranging from three months to two years and are fully exercisable when vested. The 1999 Long-term Equity Incentive Plan will expire in 2009.

The table below is a summary of the status of the Corporation's stock option plans and changes in those plans as of and for the years ended December 31, 2005, 2004 and 2003.

Year Ended December 31,	2005		2004		2003	
OPTIONS	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding, beginning of year	1,019,643	$ 22.00	951,509	$ 20.71	842,583	$ 19.89
Granted	225,970	26.58	185,170	25.60	190,714	23.46
Exercised	(96,620)	16.59	(95,899)	15.48	(69,672)	16.93
Cancelled	(44,206)	25.32	(21,137)	25.36	(12,116)	22.27
Outstanding, end of year	1,104,787	$ 23.28	1,019,643	$ 22.00	951,509	$ 20.71
Options exercisable at year end	1,061,372		693,560		653,040	
Weighted-average fair value of options granted during the year		$ 6.93		$ 6.98		$ 5.99

As of December 31, 2005, other information by exercise price range for option s outstanding and exercisable is as follows:

	OUTSTANDING			EXERCISABLE	
EXERCISE PRICE RANGE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
$ 13.89 - $21.85	369,851	$18.52	3.6 years	369,507	$18.52
22.22 - 25.60	380,952	24.67	7.2 years	347,917	24.60
25.90 - 26.93	353,984	26.74	8.3 years	343,948	26.77
	1,104,787	$23.28	6.3 years	1,061,372	$23.19

(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

Although the Corporation has elected to follow APB No. 25, SFAS No. 123 requires pro forma disclosures of net income and earnings per share as if the Corporation had accounted for its employee stock options under that Statement.

The fair value of each option grant was estimated on the grant date using an option-pricing model with the following assumptions:

	2005	2004	2003
Risk-free interest rates........	4.05%	4.57%	3.55%
Dividend yields.................	3.56%	3.64%	3.65%
Volatility factors of expected market price common stock...	30.20%	30.89%	31.29%
Weighted-average expected life of the options	8.50 years	8.50 years	8.50 years

Under SFAS No. 123, compensation cost is recognized in the amount of the estimated fair value of the options and amortized to expense over the options' vesting period. The pro forma effect on net income and earnings per share of this statement are shown in Note 1 to the consolidated financial statements.

The First Merchants Corporation 2004 Employee Stock Purchase Plan provides eligible employees of the Corporation and its subsidiaries an opportunity to purchase shares of common stock of the Corporation through annual offerings financed by payroll deductions. A total of 400,000 shares of the Corporation's common stock were reserved for issuance pursuant to the plan. The price of the stock to be paid by the employees is determined by the Corporation's compensation committee, but may not be less than 85 percent of the lesser of the fair market value of the Corporation's common stock at the beginning or at the end of the offering period. Common stock purchases are made annually and are paid through advance payroll deductions of up to 20 percent of eligible compensation. At December 31, 2005, $470,000 has been withheld from compensation, plus interest, toward the purchase of shares after June 30, 2006, the end of the annual offering period. Participants under the plan purchased 43,238 shares in 2005 at $21.12 per share. The fair value on the purchase date was $24.85.

The Corporation's Employee Stock Purchase Plan is accounted for in accordance with APB No. 25. Although the Corporation has elected to follow APB No. 25, SFAS No. 123 requires pro forma disclosures of net income and earnings per share as if the Corporation had accounted for the purchased shares under that statement. The pro forma disclosures are included in Note 1 to the consolidated financial statements and were estimated using an option pricing model with the following assumptions for 2005, 2004 and 2003, respectively: dividend yield of 3.56, 3.64 and 3.65, percent; an expected life of one year for all years; expected volatility of 30.20, 30.89 and 31.29 percent; and risk-free interest rates of 4.05, 4.57 and 3.55 percent. The fair value of those purchase rights granted in 2005, 2004 and 2003 was $4.90, $6.38 and $4.81 respectively.

(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

The First Merchants Corporation Retirement and Income Savings Plan (the "Savings Plan"), a Section 401(k) qualified defined contribution plan, was amended on March 1, 2005 to provide enhanced retirement benefits, including employer and matching contributions, for eligible employees of the Corporation and its subsidiaries. The Corporation matches employees' contributions primarily at the rate of 50 percent for the first 6 percent of base salary contributed by participants. Beginning in 2005, employees who have completed 1,000 hours of service and are an active employee on the last day of the year receive an additional retirement contribution after year-end. The amount of a participant's retirement contribution varies from 2 to 7 percent of salary based upon years of service. Full vesting occurs after 5 years of service. The Corporations' expense for the Savings Plan was $2,052,000 for 2005, $660,000 for 2004, and $600,000 for 2003.

The Corporation maintains supplemental executive retirement and other nonqualified retirement plans for the benefit of certain directors and officers. Under the plans, the Corporation agrees to pay retirement benefits that are actuarially determined based upon plan participants' compensation amounts and years of service. Accrued benefits payable totaled $3,307,000 and $3,004,000 at December 31, 2005 and 2004. Benefit plan expense was $571,000, $615,000 and $485,000 for 2005, 2004 and 2003.

The Corporation maintains post-retirement benefit plans that provide health insurance benefits to retirees. The plans allow retirees to be carried under the Corporation's health insurance plan, generally from ages 55 to 65. The retirees pay most of the premiums due for their coverage, with amounts paid by retirees ranging from 70 to 100 percent of the premiums payable. The accrued benefits payable under the plans totaled $1,084,000 and $1,022,000 at December 31, 2005 and 2004. Post-retirement plan expense totaled $120,000, $202,000 and $240,000 for the years ending December 31, 2005, 2004 and 2003.

NOTE 17

NET INCOME PER SHARE

Year Ended December 31,	2005			2004			2003		
	INCOME	WEIGHTED-AVERAGE SHARES	PER SHARE AMOUNT	INCOME	WEIGHTED-AVERAGE SHARES	PER SHARE AMOUNT	INCOME	WEIGHTED-AVERAGE SHARES	PER SHARE AMOUNT
Basic net income per share:									
Net income available to common stockholders	$30,239	18,484,832	$1.64	$29,411	18,540,451	$1.59	$27,571	18,233,855	$1.51
Effect of dilutive stock options..		110,863			126,826			137,575	
Diluted net income per share:									
Net income available to common stockholders and assumed conversions	$30,239	18,595,695	$1.63	$29,411	18,667,277	$1.58	$27,571	18,371,430	$1.50

NOTE 17

NET INCOME PER SHARE continued

Options to purchase 214,840, 320,661 and 233,658 shares of common stock with weighted average exercise prices of $26.81, $24.66 and $24.01 at December 31, 2005, 2004 and 2003 were excluded from the computation of diluted net income per share because the options exercise price was greater than the average market price of the common stock.

NOTE 18

FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

CASH AND CASH EQUIVALENTS The fair value of cash and cash equivalents approximates carrying value.

INTEREST-BEARING TIME DEPOSITS The fair value of interest-bearing time deposits approximates carrying value.

INVESTMENT SECURITIES Fair values are based on quoted market prices.

MORTGAGE LOANS HELD FOR SALE The fair value of mortgages held for sale approximates carrying values.

LOANS For both short-term loans and variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value for other loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

FEDERAL RESERVE AND FEDERAL HOME LOAN BANK STOCK The fair value of FRB and FHLB stock is based on the price at which it may be resold to the FRB and FHLB.

INTEREST RECEIVABLE/PAYABLE The fair values of interest receivable/payable approximate carrying values.

CASH VALUE OF LIFE INSURANCE The fair value of cash value of life insurance approximates carrying value.

DEPOSITS The fair values of noninterest-bearing demand accounts, interest-bearing demand accounts and savings deposits are equal to the amount payable on demand at the balance sheet date. The carrying amounts for variable rate, fixed-term certificates of deposit approximate their fair values at the balance sheet date. Fair values for fixed-rate certificates of deposit and other time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on such time deposits.

BORROWINGS The fair value of borrowings is estimated using a discounted cash flow calculation, based on current rates for similar debt, except for short-term and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

NOTE 18

FAIR VALUES OF FINANCIAL INSTRUMENTS continued

adjustable rate borrowing arrangements. At December 31, the fair value for these instruments approximates carrying value.

OFF-BALANCE SHEET COMMITMENTS

Loan commitments and letters-of-credit generally have short-term, variable-rate features and contain clauses which limit the Banks' exposure to changes in customer credit quality. Accordingly, their carrying values, which are immaterial at the respective balance sheet dates, are reasonable estimates of fair value.

The estimated fair values of the Corporation's financial instruments are as follows:

	2005		2004	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets at December 31:				
Cash and cash equivalents	$ 70,417	$ 70,417	$ 69,960	$ 69,960
Interest-bearing time deposits	8,748	8,748	9,343	9,343
Investment securities available for sale	422,627	422,627	416,177	416,177
Investment securities held to maturity	11,639	11,510	5,358	5,520
Mortgage loans held for sale	4,910	4,910	3,367	3,367
Loans	2,432,239	2,511,784	2,405,503	2,415,924
FRB and FHLB stock	23,200	23,200	22,858	22,858
Interest receivable	19,690	19,690	17,318	17,318
Cash value of life insurance	43,579	43,579	42,061	42,061
Liabilities at December 31:				
Deposits	2,382,576	2,250,494	2,408,150	2,404,595
Borrowings:				
Federal funds purchased	50,000	50,000	32,550	32,550
Securities sold under repurchase agreements	106,415	106,415	87,472	85,136
FHLB advances	247,865	248,303	223,663	234,247
Subordinated debentures, revolving credit lines and term loans	103,956	115,822	97,206	105,139
Interest payable	5,874	5,874	4,411	4,411

NOTE 19

CONDENSED FINANCIAL INFORMATION (parent company only)

Presented below is condensed financial information as to financial position, results of operations, and cash flows of the Corporation:

CONDENSED BALANCE SHEETS

	December 31, 2005	December 31, 2004
Assets		
Cash	$ 2,749	$ 987
Investment securities available for sale	3,500	3,500
Investment in subsidiaries	404,974	401,721
Goodwill	448	448
Other assets	12,259	10,039
Total assets	$423,930	$416,695
Liabilities		
Borrowings	$103,956	$ 97,206
Other liabilities	6,578	4,886
Total liabilities	110,534	102,092
Stockholders' equity	313,396	314,603
Total liabilities and stockholders' equity	$423,930	$416,695

(table dollar amounts in thousands, except share data)

NOTE 19

CONDENSED FINANCIAL INFORMATION (parent company only) continued

CONDENSED STATEMENTS OF INCOME

	December 31, 2005	2004	2003
Income			
Dividends from subsidiaries	$ 30,930	$ 28,983	$ 45,445
Administrative services fees from subsidiaries	13,823	13,767	10,849
Other income	644	375	472
Total income	45,397	43,125	56,766
Expenses			
Amortization of core deposit intangibles and fair value adjustments	11	11	26
Interest expense	7,432	6,785	6,463
Salaries and employee benefits	12,500	11,240	9,531
Net occupancy expenses	1,294	1,481	1,869
Equipment expenses	3,418	2,918	1,955
Telephone expenses	1,181	1,383	1,571
Postage and courier expense	1,528	1,467	970
Other expenses	2,394	1,761	2,760
Total expenses	29,758	27,046	25,145
Income before income tax benefit and equity in undistributed income of subsidiaries	15,639	16,079	31,621
Income tax benefit	5,404	4,557	5,577
Income before equity in undistributed income of subsidiaries	21,043	20,636	37,198
Equity in undistributed (distributions in excess of) income of subsidiaries	9,196	8,775	(9,627)
Net Income	$ 30,239	$ 29,411	$ 27,571

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2005	2004	2003
Operating activities:			
Net income	$ 30,239	$ 29,411	$ 27,571
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	11	11	26
Distributions in excess of (equity in undistributed) income of subsidiaries	(9,196)	(8,775)	(9,627)
Net change in:			
Other assets	(2,220)	(535)	2,406
Other liabilities	1,680	461	(6)
Net cash provided by operating activities	20,514	20,573	20,370
Investing activities - Investment in subsidiaries	(2,884)	(2,289)	(25,858)
Net cash used by investing activities	(2,884)	(2,289)	(25,858)
Financing activities:			
Cash dividends	(16,981)	(17,048)	(16,557)
Borrowings	9,833	7,251	47,594
Repayment of borrowings	(3,083)	(9,594)	(29,550)
Stock issued under employee benefit plans	914	903	819
Stock issued under dividend reinvestment and stock purchase plan	933	1,278	1,339
Stock options exercised	2,174	1,404	1,191
Stock redeemed	(9,658)	(4,726)	(489)
Cash paid in lieu of issuing fractional shares			(28)
Net cash provided (used) by financing activities	(15,868)	(20,532)	4,319
Net change in cash	1,762	(2,248)	(1,169)
Cash, beginning of year	987	3,235	4,404
Cash, end of year	$ 2,749	$ 987	$ 3,235

(table dollar amounts in thousands, except share data)

NOTE 20

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth certain quarterly results for the years ended December 31, 2005 and 2004:

QUARTER ENDED	INTEREST INCOME	INTEREST EXPENSE	NET INTEREST INCOME	PROVISION FOR LOAN LOSSES	NET INCOME	AVERAGE SHARES OUTSTANDING		NET INCOME PER SHARE	
						BASIC	DILUTED	BASIC	DILUTED
2005:									
March	$ 41,315	$ 14,373	$ 26,942	$ 2,667	$ 6,567	18,559,664	18,696,526	$ .35	$ .35
June	43,513	15,592	27,921	1,948	7,921	18,435,677	18,536,137	.43	.43
September	45,567	17,427	28,140	1,794	8,220	18,478,154	18,590,034	.45	.44
December	46,814	18,688	28,126	1,945	7,531	18,458,990	18,557,622	.41	.41
	$ 177,209	$ 66,080	$ 111,129	$ 8,354	$ 30,239	18,484,832	18,595,695	$1.64	$1.63
2004:									
March	$ 38,224	$ 12,592	$ 25,632	$ 1,372	$ 6,935	18,518,282	18,645,571	$ .37	$ .37
June	38,099	12,252	25,847	1,720	7,355	18,511,190	18,633,301	.40	.40
September	39,801	13,009	26,792	1,380	7,653	18,548,041	18,658,459	.41	.41
December	40,850	13,732	27,118	1,233	7,468	18,583,492	18,720,802	.41	.40
	$ 156,974	$ 51,585	$ 105,389	$ 5,705	$ 29,411	18,540,451	18,667,277	$1.59	$1.58

NOTE 21

ACCOUNTING MATTERS

Share-Based Compensation
In December, 2004, FASB issued an amendment to SFAS 123 (SFAS 123R), which eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and generally requires that such transactions be accounted for using a fair value-based method. On April 14, 2005, the SEC amended the compliance date for SFAS 123R from the beginning of the first interim or annual period that begins after June 15, 2005 to the next fiscal year beginning after June 15, 2005. The Corporation adopted SFAS 123R as of January 1, 2006. The effect on the Corporation's results of operations depends on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided and possible performance condition requirements, and so cannot currently be predicted for future awards.

SFAS 123R applies to all awards granted after the effective date and to awards modified, repurchased, or cancelled after that date. The statement establishes standards for accounting for share-based payment transactions. Share-based payment transactions are those in which an entity exchanges its equity instruments for goods or services or in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of these equity instruments. SFAS 123R covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights and employee stock purchase plans.

As of January 1, 2006, the Corporation applied SFAS 123R using the modified prospective method. This method requires that compensation expense be recorded for all unvested stock options and restricted stock awards over the requisite service period (generally the vesting schedule). For liability-classified awards, the

Note 21

ACCOUNTING MATTERS continued

Corporation measures the cost of employee services received in exchange for an award based on its current fair value; the fair value is remeasured subsequently at each reporting date through the settlement date, and changes in fair value are recognized as compensation cost. For equity-classified awards, the grant date fair value is recognized in earnings over the requisite service period.

Earnings Per Share
The FASB has issued a proposed amendment to SFAS No. 128, Earnings Per Share, to clarify guidance for mandatorily convertible instruments, the treasury stock method, contingently issuable shares, and contracts that may be settled in cash of shares. The primary impact on the Corporation of the proposed Statement is the change to the treasury stock method for year-to-date diluted earnings per share.

Currently SFAS No. 128 requires that the number of incremental shares included in the denominator be determined by computing a year-to-date weighted average of the number of incremental shares included in each quarterly diluted EPS computation. Under this proposed Statement, the number of incremental shares included in year-to-date diluted earnings per share would be computed using the average market price of common shares for the year-to-date period, independent of the quarterly computations. This computational change is not expected to have a significant impact on the Corporation's diluted earnings per share.

ANNUAL MEETING, STOCK PRICE AND DIVIDEND INFORMATION

The 2006 Annual Meeting of Stockholders
of First Merchants Corporation
will be held...

Thursday, April 13, 2006 at 3:30 p.m.

Horizon Convention Center
401 South High Street
Muncie, Indiana

STOCK INFORMATION

QUARTER	PRICE PER SHARE HIGH		LOW		DIVIDENDS DECLARED(1)	
	2005	2004	2005	2004	2005	2004
First Quarter	$ 28.57	$ 26.33	$ 25.09	$ 23.50	$ .23	$ .23
Second Quarter	26.06	25.88	23.05	22.20	.23	.23
Third Quarter	27.30	25.77	24.75	22.96	.23	.23
Fourth Quarter	26.89	29.19	23.98	24.15	.23	.23

(1) The Liquidity section of Management's Discussion & Analysis of Financial Condition and Results of Operations and Note 14 to Consolidated Financial Statements include discussions regarding dividend restrictions from the bank subsidiaries to the Corporation.

The table above lists per share prices and dividend payments during 2005 and 2004. Prices are as reported by the National Association of Securities Dealers Automated Quotation - National Market System.

Numbers rounded to nearest cent when applicable.

COMMON STOCK LISTING

COMMON STOCK LISTING

First Merchants Corporation common stock is traded over-the-counter on the NASDAQ National Market System. Quotations are carried in many daily papers. The NASDAQ symbol is FRME (Cusip #320817-10-9). At the close of business on January 31, 2006, the number of shares outstanding was 18,420,077. There were 6,061 stockholders of record on that date.

General Stockholder Inquiries

Stockholders and interested investors may obtain information about the Corporation upon written request or by calling:

Mr. Brian Edwards
Shareholder Relations Officer
First Merchants Corporation
P. O. Box 792
Muncie, Indiana 47308-0792
765-741-7278
800-262-4261 Ext. 7278

Stock Transfer Agent and Registrar

American Stock Transfer & Trust Company
59 Maiden Lane, 1st Floor
New York, NY 10038

FORM 10-K, FINANCIAL INFORMATION AND CODE OF ETHICS

The Corporation, upon request and without charge, will furnish stockholders, security analysts and investors a copy of Form 10-K filed with the Securities and Exchange Commission.

The Securities and Exchange Commission maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the commission, including the Corporation; that address is http://www.sec.gov

The Corporation has adopted a Code of Ethics that applies to its Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Controller and Treasurer. It is part of the Corporation's Code of Business Conduct, which applies to all employees and directors of the Corporation and its affiliates. A copy of the Code of Ethics may be obtained, free of charge, by writing to First Merchants Corporation at 200 East Jackson Street, Muncie, IN 47305. In addition, the Code of Ethics is maintained on the Corporation's web site, which can be accessed at http://www.firstmerchants.com.

Please contact:
Mr. Mark Hardwick
Executive Vice President
and Chief Financial Officer

First Merchants Corporation
P. O. Box 792
Muncie, Indiana 47308-0792

765-751-1857
1-800-262-4261 Ext. 1857

EXHIBIT-21
SUBSIDIARIES OF THE REGISTRANT

EXHIBIT 21--SUBSIDIARIES OF THE REGISTRANT

Name	State of Incorporation
First Merchants Bank, National Association (also doing business as First Merchants Bank of Hamilton County)	U.S.
The Madison Community Bank, National Association	U.S.
United Communities National Bank	U.S.
The First National Bank of Portland	U.S.
Decatur Bank & Trust Company, National Association	U.S.
Frances Slocum Bank & Trust Company, National Association	U.S.
Lafayette Bank and Trust Company, National Association	U.S.
Commerce National Bank	U.S.
First Merchants Capital Trust I	Delaware
First Merchants Insurance Services, Inc	Indiana
First Merchants Reinsurance Co. Ltd	Providencials Turkes and Caicos, Island
Indiana Title Insurance Company	Indiana
Indiana Title Insurance Company, LLC	Indiana
FMB Portfolio Management, Inc	Delaware
UCNB Portfolio Management, Inc	Delaware
Wabash Valley Investments, Inc	Nevada
Wabash Valley, LLC	Nevada
Wabash Valley Holdings, Inc	Nevada
Merchants Trust Company, National Association	U.S.
CNBC Statutory Trust I	Connecticut

EXHIBIT-23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

EXHIBIT 23 - CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report on Form 10-K and the registration statements on Form S-8, (File No.s 033-54065, 333-116074, 333-111374, 333-50484, 333-80119 and 333-80117) of First Merchants Corporation (the "Corporation") of our reports dated January 27, 2006, on the consolidated financial statements of the Corporation as of year ended December 31, 2005 and on our audit of internal control over financial reporting of the Corporation as of December 31, 2005, which reports are included in this Annual Report on Form 10-K.

/s/ BKD, LLP

Indianapolis, Indiana
March 13, 2006

EXHIBIT-24
LIMITED POWER OF ATTORNEY

EXHIBIT 24--LIMITED POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned directors and officers of First Merchants Corporation, an Indiana corporation, hereby constitute and appoint Mark K. Hardwick, the true and lawful agent and attorney-in-fact of the undersigned with full power and authority in said agent and attorney-in-fact to sign for the undersigned and in their respective names as directors and officers of the Corporation the Form 10-K of the Corporation to be filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment to such Form 10-K, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

Dated: February 14, 2006

/s/ Michael L. Cox		/s/ James F. Ault	
Michael L. Cox	President and Chief Executive Officer (Principal Executive Officer)	James F. Ault	Director
/s/Mark K. Hardwick		/s/ Richard A. Boehning	
Mark K. Hardwick	Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)	Richard A. Boehning	Director
		/s/ Thomas B. Clark	
		Thomas B. Clark	Director
		/s/ Michael L. Cox	
		Michael L. Cox	Director
		/s/ Roderick English	
		Roderick English	Director
		/s/ Dr. Jo Ann M. Gora	
		Dr. Jo Ann M. Gora	Director
		/s/ Barry J. Hudson	
		Barry J. Hudson	Director
		/s/ Robert T. Jaffares	
		Robert T. Jeffares	Director
		/s/ Thomas D. McAuliffe	
		Thomas D. McAuliffe	Director
		/s/ Michael C. Rechin	
		Michael C. Rechin	Director
		/s/ Charles E. Schalliol	
		Charles E. Schalliol	Director
		/s/ Robert M. Smitson	
		Robert M. Smitson	Director
		Jean L. Wojtowicz	Director

EXHIBIT-31.1

FIRST MERCHANTS CORPORATION

FORM 10-K
CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Michael L. Cox, President and Chief Executive Officer of First Merchants Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of First Merchants Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board or directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2006

/s/Michael L. Cox

Michael L. Cox
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT-31.2

FIRST MERCHANTS CORPORATION

FORM 10-K
CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Mark K. Hardwick, Senior Vice President and Chief Financial Officer of First Merchants Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of First Merchants Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board or directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2006

/s/Mark K. Hardwick

Mark K. Hardwick
Executive Vice President and
Chief Financial Officer
(Principal Financial and
Principal Accounting Officer)

EXHIBIT-32

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of First Merchants Corporation (the "Corporation") on Form 10-K for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Michael L. Cox, President and Chief Executive Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date March 16, 2006 by /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer
(Principal Executive Officer)

A signed copy of this written statement required by Section 906 has been provided to First Merchants Corporation and will be retained by First Merchants Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

In connection with the annual report of First Merchants Corporation (the "Corporation") on Form 10-K for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Mark K. Hardwick, Senior Vice President and Chief Financial Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date March 16, 2006 by /s/ Mark K. Hardwick

Mark K. Hardwick
Executive Vice President and
Chief Financial Officer
(Principal Financial and
Principal Accounting Officer)

A signed copy of this written statement required by Section 906 has been provided to First Merchants Corporation and will be retained by First Merchants Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT-99.1
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S REPORT
FOR FIRST MERCHANTS CORPORATION EMPLOYEE STOCK PURCHASE PLAN

EXHIBIT 99.1--FINANCIAL STATEMENTS AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S REPORT FOR FIRST MERCHANTS CORPORATION EMPLOYEE STOCK PURCHASE PLAN

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The annual financial statements and independent registered public accounting firm's report thereon for First Merchants Corporation Employee Stock Purchase Plan for the year ending December 31, 2005, will be filed as an amendment to the 2005 Annual Report on Form 10-K.