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, 2004

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 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 checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No[ ]

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 $479,658,139 as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2004).

As of March 9, 2005 there were 18,543,441 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, 2004	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 14, 2005	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 ten affiliate banks with over seventy 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;
* The Union County National Bank of Liberty with locations in Union, Fayette, Wayne and Butler (OH) counties;
* The Randolph County Bank, National Association;
* 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, 2005, The Union County National Bank of Liberty was merged into The Randolph County Bank, National Association, and the name of the continuing institution is United Communities National Bank.

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 October 27, 2004, Mangas Agencies, 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, 2004, the Corporation had consolidated assets of $3.2 billion, consolidated deposits of $2.4 billion and stockholders' equity of $315 million. The Corporation is presently engaged in conducting commercial banking business through the offices of its ten banking subsidiaries. As of December 31, 2004, the Corporation and its subsidiaries had 1,100 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, 2004:

	Corporation	Regulatory Minimum Requirement
Tier 1 Capital: (to risk-weighted assets)	9.6%	4.0%
Total Capital:	11.6%	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, 2004.

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, 2004, 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, 2004, the Corporation's affiliate banks had a total of $11,090,000 retained net profits available for 2005 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)

	2004			2003			2002		
	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	$ 7,759	$ 165	2.1%	$ 44,243	$ 485	1.1%	$ 39,239	$ 557	1.4%
Interest-bearing deposits......	17,500	555	3.2	6,655	76	1.1	2,866	141	4.9
Federal Reserve and Federal Home Loan Bank stock.	22,655	1,250	5.5	13,615	649	4.8	12,327	735	6.0
Securities: (1)									
Taxable	247,930	8,371	3.4	181,698	6,105	3.4	170,937	9,086	5.3
Tax-exempt	141,205	9,382	6.6	136,028	9,648	7.1	131,145	9,523	7.3
Total Securities.............	389,135	17,753	4.6	317,726	15,753	5.0	302,082	18,609	6.2
Mortgage loans held for sale.....	4,205	240	5.7	12,294	725	5.9	21,545	503	2.3
Loans: (2)									
Commercial	1,495,195	89,108	6.0	1,387,704	82,183	5.9	1,010,232	66,736	6.6
Bankers' acceptance and Commercial paper purchased...				4,660	61	1.3			
Real estate mortgage...........	486,377	27,969	5.8	517,376	32,100	6.2	484,267	35,704	7.4
Installment	372,817	22,636	6.1	345,084	26,167	7.6	318,277	26,649	8.4
Tax-exempt	10,423	894	8.6	14,496	1,088	7.5	8,108	725	8.9
Total loans	2,369,017	140,847	5.9	2,281,614	142,324	6.2	1,842,429	130,317	7.1
Total earning assets.........	2,806,066	160,570	5.7	2,663,853	159,287	6.0	2,198,943	150,359	6.8
Net unrealized gain (loss) on securities available for sale...........	4,676			7,553			6,214		
Allowance for loan losses........	(26,093)			(28,906)			(20,187)		
Cash and due from banks..........	63,420			75,801			66,510		
Premises and equipment	38,397			39,069			44,088		
Other assets	222,638			202,825			110,683		
Total assets	$3,109,104			$2,960,195			$2,406,251		
Liabilities:									
Interest-bearing deposits:									
NOW accounts	$ 346,525	1,779	0.5%	$ 344,933	2,015	0.6%	$ 273,126	3,680	1.3%
Money market deposit accounts	359,359	3,219	0.9	336,669	3,360	1.0	332,811	3,290	1.0
Savings deposits	297,364	992	0.3	293,119	1,376	0.5	184,849	2,184	1.2
Certificates and other time deposits	1,051,092	27,854	2.7	988,957	28,107	2.8	838,272	30,546	3.6
Total interest-bearing deposits.....................	2,054,340	33,844	1.6	1,963,678	34,858	1.8	1,629,058	39,700	2.4
Borrowings	402,776	17,741	4.4	381,178	17,530	4.6	277,709	14,060	5.1
Total interest-bearing liabilities..................	2,457,116	51,585	2.1	2,344,856	52,388	2.2	1,906,767	53,760	2.8
Noninterest-bearing deposits.....	310,966			293,397			227,995		
Other liabilities	31,018			28,339			33,914		
Total liabilities............	2,799,100			2,666,592			2,168,676		
Stockholders' equity	310,004			293,603			237,575		
Total liabilities and stockholders' equity........	$3,109,104	51,585	1.8(3)	$2,960,195	52,388	2.0(3)	$2,406,251	53,760	2.4(3)
Net interest income		$108,986			$106,899			$ 96,599	
Net interest margin..........			3.9			4.0			4.4

(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) Total interest expense divided by total earning assets adjustment to convert tax exempt investment securities to fully taxable equivalent basis, using marginal rate of 35% for 2004, 2003, and 2002.............................

	2004	2003	2002
	$3,597	$3,757	$3,676

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.

	2004 Compared to 2003 Increase (Decrease) Due To			2003 Compared to 2002 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in Thousands on Fully Taxable Equivalent Basis)					
Interest income:						
Federal funds sold	$ (577)	$ 257	$ (320)	$ 65	$ (135)	$ (70)
Interest-bearing deposits	229	250	479	127	(248)	(121)
Federal Reserve and Federal Home Loan Bank stock	474	127	601	72	(158)	(86)
Securities	3,332	(1,332)	2,000	924	(3,780)	(2,856)
Mortgage loans held for sale	(462)	(23)	(485)	(288)	510	222
Loans	5,843	(6,835)	(992)	29,315	(17,475)	11,840
Totals	8,839	(7,556)	1,283	30,215	(21,286)	8,929
Interest expense:						
NOW accounts	9	(245)	(236)	794	(2,459)	(1,665)
Money market deposit accounts	217	(358)	(141)	38	32	70
Savings deposits	20	(404)	(384)	899	(1,707)	(808)
Certificates and other time deposits	1,708	(1,961)	(253)	4,948	(7,387)	(2,439)
Borrowings	969	(758)	211	4,853	(1,381)	3,472
Totals	2,923	(3,726)	(803)	11,532	(12,902)	(1,370)
Change in net interest income (fully taxable equivalent basis)	$ 5,916	$ (3,830)	2,086	$18,683	$ (8,384)	10,299
Tax equivalent adjustment using marginal rate of 35% for 2004, 2003, and 2002			161			(80)
Change in net interest income			$ 2,247			$ 10,219

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, 2004				
U.S. Treasury	$ 1,745		$ 1	$ 1,744
Federal agencies	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
Corporate obligations	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

Available for sale at December 31, 2003				
	(Dollars in Thousands)			
U.S. Treasury	$ 1,498			$ 1,498
Federal agencies	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

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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, 2002				
U.S. Treasury	$ 125			$ 125
Federal agencies	27,630	$ 814	$ 8	28,436
State and municipal	135,715	5,787	178	141,324
Mortgage-backed securities	117,724	2,448	54	120,118
Other asset-backed securities	1,000			1,000
Corporate obligations	12,101	465		12,566
Marketable equity securities	29,452	20	116	29,356
Total available for sale	323,747	9,534	356	332,925
Held to maturity at December 31, 2002				
State and municipal	9,013	448		9,461
Mortgage-backed securities	124			124
Total held to maturity	9,137	448		9,585
Total investment securities	$332,884	$ 9,982	$ 356	$342,510

	Cost		
	2004	2003	2002
	(Dollars in Thousands)		
Federal Reserve and Federal Home Loan Bank stock at December 31:			
Federal Reserve Bank stock	$ 8,814	$ 2,320	$ 493
Federal Home Loan Bank stock	14,044	13,182	10,916
Total	$22,858	$15,502	$11,409

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, 2004, 2003 or 2002 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 agencies and corporations.

The maturity distribution (Dollars in Thousands) and average yields for the securities portfolio at December 31, 2004 were:

Securities available for sale December 31, 2004:

	Within 1 Year		1-5 Years		5-10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury	$ 1,744	1.7%				
Federal Agencies	1,502	2.8	$ 61,211	3.6%	$ 2,353	3.6%
State and Municipal	9,882	7.1	69,151	5.0	51,086	6.2
Total	$13,128	5.9%	$130,362	4.3%	$53,439	6.1%

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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........................					$ 1,744	1.7%
Federal Agencies.....................					65,066	3.6
State and Municipal..................	$ 25,326	7.3%			155,445	5.9
Marketable equity securities.........			$ 12,199	5.4%	12,199	5.4
Mortgage-backed securities...........			181,705	3.9	181,705	3.9
Other asset-backed securities........	18	7.0			18	7.0
Total............................	$ 25,344	7.3%	$ 193,904	4.0%	$416,177	4.6%

Securities held to maturity at December 31, 2004:

	Within 1 Year		1-5 Years		5-10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
State and municipal..................	$ 1,110	8.1%	$ 2,760	8.1%	$ 295	9.0%

	Due After Ten Years		Mortgage-Backed Securities		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
State and municipal..................	$ 1,141	8.8%			$ 5,306	8.3%
Mortgage-backed securities...........			$ 52	8.4%	52	8.4
Total............................	$ 1,141	8.8%	$ 52	8.4%	$ 5,358	8.3%

*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, 2004:

	(Dollars in Thousands) Amount	Yield
Federal Reserve Bank Stock...........	$ 8,814	6.0%
Federal Home Loan Bank stock.........	14,044	4.3
Total............................	$22,858	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, 2004 and 2003:

	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)
Federal agencies	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)

	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, 2003:						
Federal agencies	$ 7,410	$ (50)	$ 747	$ (2)	$ 8,157	$ (52)
State and municipal	2,547	(82)	166	(4)	2,713	(86)
Mortgage-backed securities	90,148	(1,817)			90,148	(1,817)
Total temporarily impaired investment securities ..	$ 100,105	$ (1,949)	$ 913	$ (6)	$ 101,018	$ (1,955)

STATISTICAL DATA (continued)

LOAN PORTFOLIO

TYPES OF LOANS

The loan portfolio at the dates indicated is presented below:

	2004	2003	2002	2001	2000
	(Dollars in Thousands)				
Loans at December 31:					
Commercial and industrial loans	$ 451,227	$ 435,221	$ 401,395	$ 301,962	$ 258,405
Agricultural production financing and other loans to farmers	98,902	95,048	85,059	29,645	24,547
Real estate loans:					
Construction	164,738	149,865	133,896	58,316	45,412
Commercial and farmland	709,163	564,578	401,561	230,233	167,317
Residential	761,163	866,477	746,349	544,028	466,660
Individuals' loans for household and other personal expenditures	198,532	196,093	206,083	179,325	201,629
Tax-exempt loans	8,203	16,363	12,615	7,277	6,093
Lease financing	11,311	7,919	5,249		
Other loans	24,812	21,939	12,170	8,800	5,523
Total loans	$2,428,051	$2,353,503	$2,004,377	$1,359,586	$1,175,586

Residential Real Estate Loans Held for Sale at December 31, 2004, 2003, 2002, 2001 and 2000 were $3,367,000, $3,043,000, $21,545,000, $307,000, and $0.

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, 2004. Also presented are the amounts due after one year classified according to the sensitivity to changes in interest rates.

	Maturing Within 1 Year	Maturing 1-5 Years	Maturing Over 5 Years	Total
	(Dollars in Thousands)			
Commercial and industrial loans	$ 334,525	$ 84,987	$ 31,715	$ 451,227
Agricultural production financing and other loans to farmers	84,681	11,594	2,627	98,902
Real estate - Construction	128,821	30,904	5,013	164,738
Real estate - Commercial and farmland	383,028	264,995	61,140	709,163
Tax-exempt loans	55	3,177	4,971	8,203
Other loans	11,013	13,484	315	24,812
Total	$ 942,123	$ 409,141	$105,781	$1,457,045

	Maturing 1 - 5 Years	Maturing Over 5 Years
	(Dollars in Thousands)	
Loans maturing after one year with:		
Fixed rate	$ 109,404	$ 99,121
Variable rate	299,737	6,660
Total	$ 409,141	$ 105,781

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

	December 31 2004	2003	2002	2001	2000
	(Dollars in Thousands)				
Nonaccruing loans	$15,355	$19,453	$14,134	$6,327	$2,370
Loans contractually past due 90 days or more other than nonaccruing	1,907	6,530	6,676	4,828	2,483
Restructured loans	2,019	641	2,508	3,511	3,085
	$19,281	$26,624	$23,318	$14,666	$7,938

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 $3,029,000 for the year ended December 31, 2004, was recognized on the nonaccruing and restructured loans listed in the table above, whereas interest income of $4,166,000 would have been recognized under their original loan terms.

Potential problem loans:

Management has identified certain other loans totaling $65,953,000 as of December 31, 2004, 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.

	2004	2003	2002	2001	2000
	(Dollars in Thousands)				
Allowance for loan losses:					
Balance at January 1	$ 25,493	$ 22,417	$ 15,141	$ 12,454	$ 10,128
Chargeoffs:					
Commercial and industrial(1)	7,455	5,023	4,711	1,688	974
Real estate mortgage(3)	1,588	2,111	800	227	43
Individuals' loans for household and other personal expenditures, including other loans	1,858	5,005	2,602	1,632	1,274
Total chargeoffs	10,901	12,139	8,113	3,547	2,291
Recoveries:					
Commercial and industrial(2)	1,629	1,002	549	176	171
Real estate mortgage(4)	161	421	92	32	1
Individuals' loans for household and other personal expenditures, including other loans	461	588	672	365	407
Total recoveries	2,251	2,011	1,313	573	579
Net chargeoffs	8,650	10,128	6,800	2,974	1,712
Provisions for loan losses	5,705	9,477	7,174	3,576	2,625
Allowance acquired in purchase		3,727	6,902	2,085	1,413
Balance at December 31	$22,548	$25,493	$22,417	$15,141	$12,454

(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.

	2004	2003	2002	2001	2000
Ratio of net chargeoffs during the period to average loans outstanding during the period	.37%	.44%	.37%	.23%	.16%

STATISTICAL DATA (continued)

The information regarding the analysis of loan loss experience on pages 9 and 10 of the First Merchants Corporation - Annual Report 2004 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:

	2004		2003	
	Amount	Per Cent	Amount	Per Cent
	(Dollars in Thousands)			
Balance at December 31:				
Commercial and industrial(1)................	$ 16,821	30.9%	$ 17,517	29.9%
Real estate mortgage(2).....................	1,916	60.6	4,441	60.8
Individuals' loans for household and other personal expenditures, including other loans.....................	3,711	8.5	3,435	9.3
Unallocated.................................	100	N/A	100	N/A
Totals......................................	$ 22,548	100.0%	$ 25,493	100.0%

	2002		2001	
	Amount	Per Cent	Amount	Per Cent
	(Dollars in Thousands)			
Balance at December 31:				
Commercial and industrial(1)................	$ 12,405	31.8%	$ 6,884	29.2%
Real estate mortgage(2).....................	2,875	57.3	2,655	56.9
Individuals' loans for household and other personal expenditures, including other loans.....................	7,037	10.9	5,502	13.9
Unallocated.................................	100	N/A	100	N/A
Totals......................................	$ 22,417	100.0%	$ 15,141	100.0%

	2000	
	Amount	Per Cent
	(Dollars in Thousands)	
Balance at December 31:		
Commercial and industrial(1)................	$ 4,478	28.5%
Real estate mortgage(2).....................	1,554	53.9
Individuals' loans for household and other personal expenditures, including other loans.....................	4,622	17.6
Unallocated.	1,800	N/A
Totals......................................	$ 12,454	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 and farmland and residential real estate loans.

At December 31, 2004, 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)
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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:

	2004	2003	2002
		(Dollars in Thousands)	
As of, and for the year ending December 31:			
Impaired loans with an allowance	$ 7,728	$ 12,725	$ 16,901
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	41,683	32,047	27,450
Total impaired loans	$ 49,411	$ 44,772	$ 44,351
Total impaired loans as a percent of total loans	2.03%	1.90%	2.19%
Allowance for impaired loans (included in the Corporation's allowance for loan losses)	$ 1,673	$ 5,728	$ 7,299
Average balance of impaired loans	59,568	50,245	49,663
Interest income recognized on impaired loans	4,166	3,259	3,656
Cash basis interest included above	3,029	2,714	2,344

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STATISTICAL DATA (continued)

DEPOSITS

The average balances, interest income and expense and average rates on deposits for the years ended December 2004, 2003 and 2002 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, 2004, 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..........	$117,826	$ 22,121	$ 26,027	$ 92,388	$258,362
Per cent.......................	45%	9%	10%	36%	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 2004 under the caption "Five - Year Summary of Selected Financial Data" is expressly incorporated herein by reference.

SHORT-TERM BORROWINGS

	2004	2003	2002
	(Dollars in Thousands)		
Balance at December 31:			
Securities sold under repurchase agreements (short-term portion)........	$ 87,472	$ 71,095	$ 65,962
Federal funds purchased..................	32,550		
U.S. Treasury demand notes...............			
Total short-term borrowings......	$ 120,022	$ 71,095	$ 65,962

Securities sold under repurchase agreements are borrowings maturing within one year and are secured by U.S. Treasury and Federal agency obligations.

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

	2004	2003	2002
	(Dollars in Thousands)		
Weighted average interest rate on outstanding balance at December 31:			
Securities sold under repurchase agreements(short-term portion)..............	1.8%	1.4%	1.1%
Total short-term borrowings.....................	1.9	1.4	1.1
Weighted average interest rate during the year:			
Securities sold under repurchase agreements (short-term portion).............	.8%	.9%	1.4%
Total short-term borrowings.....................	1.0	.9	1.3
Highest amount outstanding at any month end during the year:			
Securities sold under repurchase agreements (short-term portion).............	$ 37,771	$ 69,396	$ 54,375
Total short-term borrowings.....................	120,019	113,618	67,984
Average amount outstanding during the year:			
Securities sold under repurchase agreements (short-term portion).............	$ 62,702	$ 51,780	$ 41,241
Total short-term borrowings.....................	81,194	59,719	49,886

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 70 banking offices operated by the Corporation's affiliate banks, 56 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, 2004 was $38,254,000.

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 2004 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 60	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.
Roger M. Arwood 53	Executive Vice President and Chief Operating Officer, Corporation	Chief Operating Officer of the Corporation since August 2002; President and Chief Executive Officer First Merchants from September 2000 to August 2002; Bank of America from 1983 to February 2000; Executive Vice President of the Corporation since February of 2000.
Robert R. Connors 55	Senior Vice President of Operations and Technology, Corporation and First Merchants	Senior Vice President of Operations and Technology, Corporation and First Merchants since August 2002; Senior Vice President of Operations and Compliance Officer at First Internet Bank of Indiana from 1999 to 2002.
Larry R. Helms 64	Senior Vice President, General Counsel and Secretary, Corporation	Senior Vice President and General Counsel, Corporation since 1982 and Secretary since January 1997; Senior Vice President, First Merchants from January 1979 to 2002; Director of First United Bank from 1991 to 2002 and Pendleton Banking Company from 1992 to 2002.
Mark K. Hardwick 34	Senior Vice President and Chief Financial Officer, Corporation	Senior Vice President and Chief Financial Officer of the Corporation since April of 2002; Corporate Controller, Corporation from November 1997 to April 2002.

PART II

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

On October 15, 2004, the Corporation issued 68,548 unregistered shares of its common stock pursuant to a Merger Agreement dated October 15, 2004, between the Corporation, First Merchants Insurance Services, Inc. and Mangas Agencies, Inc. ("Mangas"). The Corporation issued the unregistered shares to the shareholders of Mangas, at a value of $24.80 per share, in exchange for all the common stock of Mangas. The issuance by the Corporation of its shares of common stock were not registered under the Securities Act of 1933, as amended ("Securities Act"). The shares were issued pursuant to the exemption contemplated in Section 4 (2) of the Securities Act, for transactions not involving a public offering.

The information on pages 54 and 55 of the First Merchants Corporation - Annual Report 2004 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, as follows(1):

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS
October 1-31, 2004	0		0	0
November 1-30, 2004	67,365 (2)	25.21	0	0
December 1-31, 2004	21,152 (3)	28.22	0	0

(1) On February 10, 2004, the Corporation's Board authorized management to repurchase up to 250,000 shares of the Corporation's Common Stock. This authorization expired February 8, 2005.

(2) 63,000 of these shares were purchased in open-market transactions pursuant to the Board's authorization to repurchase shares. The remaining 4,365 shares were purchased in connection with the exercise of certain outstanding options.

(3) 13,500 of these shares were purchased in open-market transactions pursuant to the Board's authorization to repurchase shares. The remaining 7,652 shares were purchased in connection with the exercise of certain outstanding options.

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	966,939	$ 22.06	400,000 (1)
Equity compensation plans not approved by stockholders(2)	52,704	20.83	
Total	1,019,643	$ 22.00	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.

The information on page 2 of the First Merchants Corporation - Annual Report 2004 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.

The information on pages 3 through 19 of the First Merchants Corporation - Annual Report 2004 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.

The information on pages 12 through 14 of the First Merchants Corporation - Annual Report 2004 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 20 through 53 of the First Merchants Corporation - Annual Report 2004, 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, 2004, 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, 2004. 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, 2004 is effective based on the specified criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 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, 2004, 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, 2004, 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, 2004, 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 28, 2005, expressed an unqualified opinion thereon.

BKD, LLP

Indianapolis, Indiana
January 28, 2005

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 3, 2005 furnished to its stockholders in connection with an annual meeting to be held April 14, 2005 (the "2005 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 the General Counsel of 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 2005 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", "COMMITTEES OF THE BOARD-Compensation and Human Resources Committee Report on Executive Compensation" 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 2005 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 2005 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 2005 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, 2004 and 2003
- Consolidated statements of income, years ended December 31, 2004, 2003 and 2002
- Consolidated statements of comprehensive income, years ended December 31, 2004, 2003 and 2002
- Consolidated statements of stockholders' equity, years ended December 31, 2004, 2003 and 2002
- Consolidated statements of cash flows, years ended December 31, 2004, 2003 and 2002
- 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 (2)
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 and First Merchants Bank, National Association Management Incentive Plan. (Incorporated by reference to registrant's Form 10-K for year ended December 31, 1996)(1)

10b	First Merchants Corporation Senior Management Incentive Compensation Program, as amended. (Incorporated by reference to the registrant's Form 10-K for the year ended December 31, 2000)(1)
10c	First Merchants Bank, National Association Unfunded Deferred Compensation Plan, as amended. (Incorporated by reference to registrant's Form 10-K for year ended December 31, 1996)(1)
10d	First Merchants Corporation 1994 Stock Option Plan. (Incorporated by reference to registrant's Form 10-K for year ended December 31, 1993)(1)
10e	First Merchants Corporation Change of Control Agreement with Mark K. Hardwick dated May 14, 2002. (Incorporated by reference to registrant's Form 10-Q for quarter ended June 30, 2002)(1)
10f	First Merchants Corporation change of Control Agreement with Roger M. Arwood dated February 11, 2003. (Incorporated by reference to registrant's Form 10-Q for quarter ended March 31, 2003)(1)
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10k	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)
10l	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 2004 (except for the pages and information expressly incorporated by reference in this Form 10-K, the First Merchants Corporation - Annual Report 2004 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, 2005.

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, 2005.

Signature	Name	Title	Signature	Name	Title
/s/ Michael L. Cox	Michael L. Cox	President and Chief Executive Officer (Principal Executive Officer)	/s/Mark K. Hardwick	Mark K. Hardwick	Sr. Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Stefan S. Anderson*	Stefan S. Anderson	Director	/s/ Michael L. Cox	Michael L. Cox	Director
/s/ Roger M. Arwood*	Roger M. Arwood	Director	/s/ Barry J. Hudson*	Barry J. Hudson	Director
/s/ James F. Ault*	James F. Ault	Director		Robert T. Jeffares	Director
/s/Richard A. Boehning*	Richard A. Boehning	Director	/s/ Norman M. Johnson*	Norman M. Johnson	Director
	Frank A. Bracken	Director	/s/ Thomas D. McAuliffe*	Thomas D. McAuliffe	Director
	Blaine M. Brownell	Director	/s/ Charles E. Schalliol*	Charles E. Schalliol	Director
/s/ Thomas B. Clark*	Thomas B. Clark	Director		Robert M. Smitson	Director
/s/ Roderick English*	Roderick English	Director	/s/ Jeam L. Wojtowicz*	Jean L. Wojtowicz	Director
/s/ Dr. Jo Ann Gora*	Dr. Jo Ann 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, 2005

INDEX TO EXHIBITS

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(2) Filed here within.
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EXHIBIT-3b

BYLAWS OF FIRST MERCHANTS CORPORATION

Following are the Bylaws, as amended and restated as of February 8, 2005, of First Merchants Corporation (hereinafter referred to as the "Corporation"), a corporation existing pursuant to the provisions of the Indiana Business Corporation Law, as amended (hereinafter referred to as the "Act"):

ARTICLE I

Name, Principal Office and Seal

Section 1. Name and Principal Office. The name of the Corporation is First Merchants Corporation. The post office address of the principal office of the Corporation is 200 East Jackson Street, Muncie, Indiana 47305.

Section 2. Seal. The seal of the Corporation shall be circular in form and mounted upon a metal die, suitable for impressing the same upon paper. About the upper periphery of the seal shall appear the words "First Merchants Corporation" and about the lower periphery thereof the word "Muncie, Indiana". In the center of the seal shall appear the word "Seal".

ARTICLE II

Fiscal Year

The fiscal year of the Corporation shall begin each year on the first day of January and end on the last day of December of the same year.

ARTICLE III

Capital Stock

Section 1. Number of Shares and Classes of Capital Stock. The total number of shares of capital stock which the Corporation shall have authority to issue shall be as stated in the Articles of Incorporation.

Section 2. Consideration for No Par Value Shares. The shares of stock of the Corporation without par value shall be issued or sold in such manner and for such amount of consideration as may be fixed from time to time by the Board of Directors. Upon payment of the consideration fixed by the Board of Directors, such shares of stock shall be fully paid and nonassessable.

Section 3. Consideration for Treasury Shares. Treasury shares may be disposed of by the Corporation for such consideration as may be determined from time to time by the Board of Directors.

Section 4. Payment for Shares. The consideration for the issuance of shares of capital stock of the Corporation may be paid, in whole or in part, in money, in other property, tangible or intangible, or in labor actually performed for, or services actually rendered to the Corporation; provided, however, that the part of the surplus of the Corporation which is transferred to stated capital upon the issuance of shares as a share dividend shall be deemed to be the consideration for the issuance of such shares. When payment of the consideration for which a share was authorized to be issued shall have been received by the Corporation, or when surplus shall have been transferred to stated capital upon the issuance of a share dividend, such share shall be declared and taken to be fully paid and not liable to any further call or assessment, and the holder thereof shall not be liable for any further payments thereon. In the absence of actual fraud in the transaction, the judgment of the Board of Directors as to the value of such property, labor or services received as consideration, or the value placed by the Board of Directors upon the corporate assets in the event of a share dividend, shall be conclusive. Promissory notes, uncertified checks, or future services shall not be accepted in payment or part payment of the capital stock of the Corporation, except as permitted by the Act.

Section 5. Share Certificates. Shares of the Corporation's stock may but need not be represented by a certificate. The rights and obligations of shareholders of the same class or series of shares are identical whether or not their shares are represented by certificates.

A book entry stock account shall be established in the name of each shareholder who is the beneficial owner of any shares of the Corporation's stock that are not represented by a certificate, which stock account shall set forth the number of such shares credited to the shareholder. A shareholder may request that a stock certificate, representing all or part of the shares credited to his or her stock account, be issued and delivered to the shareholder at any time.

Any holder of capital stock of the Corporation shall be entitled to a stock certificate, signed by the President or a Vice President and the Secretary or any Assistant Secretary of the Corporation, stating the name of the registered holder, the number of shares represented by such certificate, the par value of each share of stock or that such shares of stock are without par value, and that such shares are fully paid and nonassessable. If such shares are not fully paid, the certificate shall be legibly stamped to indicate the per cent which has been paid, and as further payments are made, the certificate shall be stamped accordingly. The certificate may bear the seal of the Corporation or its facsimile.

If the Corporation is authorized to issue shares of more than one class, every certificate shall state the kind and class of shares represented thereby, and the relative rights, interests, preferences and restrictions of such class, or a summary thereof; provided, that such statement may be omitted from the certificate if it shall be set forth upon the face or back of the certificate that such statement, in full, will be furnished by the Corporation to any shareholder upon written request and without charge.

Section 6. Facsimile Signatures. If a certificate is countersigned by the written signature of a transfer agent other than the Corporation or its employee, the signatures of the officers of the Corporation may be facsimiles. If a certificate is countersigned by the written signature of a registrar other than the Corporation or its employee, the signatures of the transfer agent and the officers of the Corporation may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of its issue.

Section 7. Transfer of Shares. The shares of capital stock of the Corporation shall be transferable on the books of the Corporation upon surrender of the certificate or certificates representing the same, properly endorsed by the registered holder or by the holder's duly authorized attorney or accompanied by proper evidence of succession, assignment or authority to transfer. Shares that are not represented by a certificate shall be transferable on the books of the Corporation upon receipt of written direction to do so from the registered holder or the holder's duly authorized attorney or accompanied by proper evidence of succession, assignment or authority to transfer, in a form satisfactory to the Corporation, its transfer agent or registrar.

Section 8. Cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 10 of this Article III.

Section 9. Transfer Agent and Registrar. The Board of Directors may appoint a transfer agent and a registrar for each class of capital stock of the Corporation and may require all certificates representing such shares to bear the signature of such transfer agent and registrar. Shareholders shall be responsible for notifying the Corporation or transfer agent and registrar for the class of stock held by such shareholder in writing of any changes in their addresses from time to time, and failure so to do shall relieve the Corporation, its shareholders, Directors, officers, transfer agent and registrar of liability for failure to direct notices, dividends, or other documents or property to an address other than the one appearing upon the records of the transfer agent and registrar of the Corporation.

Section 10. Lost, Stolen or Destroyed Certificates. The Corporation may cause a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Corporation may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum and in such form as it may direct to indemnify against any claim that may be made against the Corporation with respect to the certificates alleged to have been lost, stolen or destroyed or the issuance of such new certificate. The Corporation, in its discretion, may authorize the issuance of such new certificates without any bond when in its judgment it is proper to do so.

Section 11. Registered Shareholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of such shares to receive dividends, to vote as such owner, to hold liable for calls and assessments, and to treat as owner in all other respects, and shall not be bound to recognize any equitable or other claims to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Indiana.

Section 12. Options to Officers and Employees. The issuance, including the consideration, of rights or options to Directors, officers or employees of the Corporation, and not to the shareholders generally, to purchase from the Corporation shares of its capital stock shall be approved by the affirmative vote of the holders of a majority of the shares entitled to vote thereon or shall be authorized by and consistent with a plan approved by such a vote of the shareholders.

ARTICLE IV

Meetings of Shareholders

Section 1. Place of Meeting. Meetings of shareholders of the Corporation shall be held at such place, within or without the State of Indiana, as may from time to time be designated by the Board of Directors, or as may be specified in the notices or waivers of notice of such meetings.

Section 2. Annual Meeting. The annual meeting of shareholders for the election of Directors, and for the transaction of such other business as may properly come before the meeting, shall be held at such time as the Board of Directors may set by resolution, following the close of the fiscal year of the Corporation. A failure to hold the annual meeting at the designated time shall not affect the validity of any corporate action.

Section 3. Special Meetings. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Articles of Incorporation, may be called by the Board of Directors or the President and shall be called by the President or Secretary at the request in writing of a majority of the Board of Directors, or at the request in writing of shareholders holding of record not less than one-fourth (1/4) of all the shares outstanding and entitled by the Articles of Incorporation to vote on the business for which the meeting is being called.

Section 4. Notice of Meetings. A written or printed notice, stating the place, day and hour of the meeting, and in case of a special meeting, or when required by any other provision of the Act, or of the Articles of Incorporation, as now or hereafter amended, or these Bylaws, the purpose or purposes for which the meeting is called, shall be delivered or mailed by the Secretary, or by the officers or persons calling the meeting, to each shareholder of record entitled by the Articles of Incorporation, as now or hereafter amended, and by the Act to vote at such meeting, at such address as appears upon the records of the Corporation, at least ten (10) days before the date of the meeting. Notice of any such meeting may be waived in writing by any shareholder, if the waiver sets forth in reasonable detail the purpose or purposes for which the meeting is called, and the time and place thereof. Attendance at any meeting in person, or by proxy, shall constitute a waiver of notice of such meeting. Each shareholder, who has in the manner above provided waived notice of a shareholders' meeting, or who personally attends a shareholders' meeting, or is represented thereat by a proxy authorized to appear by an instrument of proxy, shall be conclusively presumed to have been given due notice of such meeting. Notice of any adjourned meeting of shareholders shall not be required to be given if the time and place thereof are announced at the meeting at which the adjournment is taken except as may be expressly required by law.

Section 5. Addresses of Shareholders. The address of any shareholder appearing upon the records of the Corporation shall be deemed to be the latest address of such shareholder appearing on the records maintained by the Corporation or its transfer agent for the class of stock held by such shareholder.

Section 6. Voting at Meetings.

(a) Quorum. The holders of record of a majority of the issued and outstanding stock of the Corporation entitled to vote at such meeting, present in person or by proxy, shall constitute a quorum at all meetings of shareholders for the transaction of business, except where otherwise provided by law, the Articles of Incorporation or these Bylaws. In the absence of a quorum, any officer entitled to preside at, or act as secretary of, such meeting shall have the power to adjourn the meeting from time to time until a quorum shall be constituted. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting, but only those shareholders entitled to vote at the original meeting shall be entitled to vote at any adjournment or adjournments thereof unless a new record date is fixed by the Board of Directors for the adjourned meeting.

(b) Voting Rights. Except as otherwise provided by law or by the provisions of the Articles of Incorporation, every shareholder shall have the right at every shareholders' meeting to one vote for each share of stock having voting power, registered in his name on the books of the Corporation on the date for the determination of shareholders entitled to vote, on all matters coming before the meeting including the election of directors. At any meeting of shareholders, every shareholder having the right to vote shall be entitled to vote in person, or by proxy executed in writing by the shareholder or a duly authorized attorney in fact and bearing a date not more than eleven (11) months prior to its execution, unless a longer time is expressly provided therein.

(c) Required Vote. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the Act or of the Articles of Incorporation or by these Bylaws, a greater vote is required, in which case such express provision shall govern and control the decision of such question.

Section 7. Voting List. The Corporation or its transfer agent shall make, at least five (5) business days before each meeting of the shareholders, a complete list of the shareholders entitled by the Articles of Incorporation, as now or hereafter amended, to notice of the meeting, arranged in alphabetical order, with the address of and number of shares held by each, which list shall be on file at the principal office of the Corporation and subject to inspection during regular business hours by any shareholder entitled to vote at the meeting, or by the shareholder's agent or attorney authorized in writing. Such list shall be available continuing through the meeting, at the Corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held.

Section 8. Fixing of Record Date to Determine Shareholders Entitled to Vote. The Board of Directors may fix a record date, not exceeding seventy (70) days prior to the date of any meeting of the shareholders, for the purpose of determining the shareholders entitled to notice of and to vote at the meeting. In the absence of action by the Board of Directors fixing a record date as herein provided, the record date shall be the sixtieth (60th) day prior to the date of the meeting. A new record date must be fixed if a meeting of the shareholders is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting.

Section 9. Nominations for Director. The Nominating and Governance Committee of the Board of Directors shall have the responsibility for nominating individuals to serve as members of the Board of Directors, including the slate of Directors to be elected each year at the annual meeting of shareholders. In so doing, the Committee shall maintain up-to-date criteria for selecting Directors and a process for identifying and evaluating prospective nominees. Shareholders may suggest a candidate for consideration by the Committee as a Director nominee by submitting the suggestion in writing and delivering or mailing it to the Secretary of the Corporation at the Corporation's principal office. Suggestions for nominees from shareholders must include: (a) the name, address and number of the Corporation's shares owned by the shareholder; (b) the name, address, age and principal occupation of the suggested nominee; (c) such other information concerning the suggested nominee as the shareholder may wish to submit or the Committee may reasonably request. The Committee shall evaluate suggestions for nominees from shareholders in the same manner as other candidates.

Any nominations for election as Directors at any annual or special meeting of shareholders not made in accordance with this Section may be disregarded by the Chairman of the meeting, in the Chairman's discretion; and, upon the Chairman's instructions, the vote tellers or inspectors of shareholder votes may disregard all votes cast for each such nominee.

ARTICLE V

Board of Directors

Section 1. Election, Number and Term of Office. The business and affairs of the Corporation shall be managed in accordance with the Act under the direction of a Board consisting of seventeen (17) Directors, to be elected by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors. The number of Directors may be changed by amendment of this Section by a two-thirds (2/3) vote of the Board of Directors.

The Directors shall be divided into three (3) classes as nearly equal in number as possible, all Directors to serve three (3) year terms except as provided in the third paragraph of this Section. One class shall be elected at each annual meeting of the shareholders, by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors. Unless the number of Directors is changed by amendment of this Section, Classes I and II shall each have six (6) Directors, and Class III shall have five (5) Directors. No decrease in the number of Directors shall have the effect of shortening the term of any incumbent Director.

No person shall serve as a Director subsequent to the annual meeting of shareholders following the end of the calendar year in which such person attains the age of seventy (70) years. The term of a Director shall expire as of the annual meeting following which the Director is no longer eligible to serve under the provisions of this paragraph, even if fewer than three (3) years have elapsed since the commencement of the Director's term.

Except in the case of earlier resignation, removal or death, all Directors shall hold office until their respective successors are chosen and qualified.

The provisions of this Section of the Bylaws may not be changed or amended except by a two-thirds (2/3) vote of the Board of Directors.

Section 2. Vacancies. Any vacancy occurring in the Board of Directors caused by resignation, death or other incapacity, or an increase in the number of Directors, shall be filled by a majority vote of the remaining members of the Board of Directors, until the next annual meeting of the shareholders, or at the discretion of the Board of Directors, such vacancy may be filled by a vote of the shareholders at a special meeting called for that purpose.

Section 3. Annual Meeting of Directors. The Board of Directors shall meet each year immediately after the annual meeting of the shareholders, at the place where such meeting of the shareholders has been held either within or without the State of Indiana, for the purpose of organization, election of officers, and consideration of any other business that may properly come before the meeting. No notice of any kind to either old or new members of the Board of Directors for such annual meeting shall be necessary.

Section 4. Regular Meetings. Regular meetings of the Board of Directors shall be held at such times and places, either within or without the State of Indiana, as may be fixed by the Directors. Such regular meetings of the Board of Directors may be held without notice or upon such notice as may be fixed by the Directors.

Section 5. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President, or by not less than a majority of the members of the Board of Directors. Notice of the time and place, either within or without the State of Indiana, of a special meeting shall be delivered personally, telephoned, faxed or sent by other electronic means to each Director at least twenty-four (24) hours, or mailed or delivered by express private delivery service, to each Director at the Director's usual place of business or residence at least forty-eight (48) hours, prior to the time of the meeting. Directors, in lieu of such notice, may sign a written waiver of notice either before the time of the meeting, at the meeting or after the meeting. Attendance by a Director in person at any special meeting shall constitute a waiver of notice.

Section 6. Quorum. A majority of the actual number of Directors elected and qualified, from time to time, shall be necessary to constitute a quorum for the transaction of any business except the filling of vacancies, and the act of a majority of the Directors present at the meeting, at which a quorum is present, shall be the act of the Board of Directors, unless the act of a greater number is required by the Act, by the Articles of Incorporation, or by these Bylaws. A Director, who is present at a meeting of the Board of Directors, at which action on any corporate matter is taken, shall be conclusively presumed to have assented to the action taken, unless (a) his dissent shall be affirmatively stated by him at and before the adjournment of such meeting (in which event the fact of such dissent shall be entered by the secretary of the meeting in the minutes of the meeting), or (b) he shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. The right of dissent provided for by either clause (a) or cause (b) of the immediately preceding sentence shall not be available, in respect of any matter acted upon at any meeting, to a Director who voted at the meeting in favor of such matter and did not change his vote prior to the time that the result of the vote on such matter was announced by the chairman of such meeting.

A member of the Board of Directors may participate in a meeting of the Board by means of a conference telephone or similar communications equipment by which all Directors participating in the meeting can communicate with each other, and participation by these means constitutes presence in person at the meeting.

Section 7. Consent Action by Directors. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if prior to such action a written consent to such action is signed by all members of the Board of Directors or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or committee.

Section 8. Removal. Any or all members of the Board of Directors may be removed, with or without cause, at a meeting of the shareholders called expressly for that purpose by the affirmative vote of the holders of not less than two-thirds (2/3) of the outstanding shares of capital stock then entitled to vote on the election of Directors, except that if the Board of Directors, by an affirmative vote of at least two-thirds (2/3) of the entire Board of Directors, recommends removal of a Director to the shareholders, such removal may be effected by the affirmative vote of the holders of not less than a majority of the outstanding shares of capital stock then entitled to vote on the election of Directors at a meeting of shareholders called expressly for that purpose.

The provisions in this Section of the Bylaws may not be changed or amended except by a two-thirds (2/3) vote of the Board of Directors.

Section 9. Dividends. The Board of Directors shall have power, subject to any restrictions contained in the Act or in the Articles of Incorporation and out of funds legally available therefor, to declare and pay dividends upon the outstanding capital stock of the Corporation as and when they deem expedient. Before declaring any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time in their absolute discretion deem proper for working capital, or as a reserve or reserves to meet contingencies or for such other purposes as the Board of Directors may determine, and the Board of Directors may in their absolute discretion modify or abolish any such reserve in the manner in which it was created.

Section 10. Fixing of Record Date to Determine Shareholders Entitled to Receive Corporate Benefits. The Board of Directors may fix a day and hour not exceeding fifty (50) days preceding the date fixed for payment of any dividend or for the delivery of evidence of rights, or for the distribution of other corporate benefits, or for a determination of shareholders for any other purpose, as a record time for the determination of the shareholders entitled to receive any such dividend, rights or distribution, and in such case only shareholders of record at the time so fixed shall be entitled to receive such dividend, rights or distribution. If no record date is fixed for the determination of shareholders entitled to receive payment of a dividend, the end of the day on which the resolution of the Board of Directors declaring such dividend is adopted shall be the record date for such determination.

Section 11. Interest of Directors in Contracts. Any contract or other transaction between the Corporation or any corporation in which this Corporation owns a majority of the capital stock shall be valid and binding, notwithstanding that the Directors or officers of this Corporation are identical or that some or all of the Directors or officers, or both, are also directors or officers of such other corporation.

Any contract or other transaction between the Corporation and one or more of its Directors or members or employees, or between the Corporation and any firm of which one or more of its Directors are members or employees or in which they are interested, or between the Corporation and any corporation or association of which one or more of its Directors are stockholders, members, directors, officers, or employees or in which they are interested, shall be valid for all purposes, notwithstanding the presence of such Director or Directors at the meeting of the Board of Directors of the Corporation which acts upon, or in reference to, such contract or transaction and notwithstanding his or their participation in such action, if the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall authorize, approve and ratify such contract or transaction by a vote of a majority of the Directors present, such interested Director or Directors to be counted in determining whether a quorum is present, but not to be counted in calculating the majority of such quorum necessary to carry such vote. This Section shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common and statutory law applicable thereto.

Section 12. Committees. The Board of Directors may, by resolution adopted by a majority of the actual number of Directors elected and qualified, from time to time, designate from among its members an executive committee and one or more other committees.

During the intervals between meetings of the Board of Directors, any executive committee so appointed, unless expressly provided otherwise by law or these Bylaws, shall have and may exercise all the authority of the Board of Directors, including, but not limited to, the authority to issue and sell or approve any contract to issue or sell, securities or shares of the Corporation or designate the terms of a series or class of securities or shares of the Corporation. The terms which may be affixed by the executive committee include, but are not limited to, the price, dividend rate, and provisions of redemption, a sinking fund, conversion, voting, or preferential rights or other features of securities or class or series of a class of shares. Such committee may have full power to adopt a final resolution which sets forth these terms and to authorize a statement of such terms to be filed with the Secretary of State. However, such executive committee shall not have the authority to declare dividends or distributions, amend the Articles of Incorporation or the Bylaws, approve a plan of merger or consolidation, even if such plan does not require shareholder approval, reduce earned or capital surplus, authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors, or recommend to the shareholders a voluntary dissolution of the Corporation or a revocation thereof.

The Board of Directors may, in its discretion, constitute and appoint other committees, in addition to an executive committee, to assist in the management and control of the affairs of the Corporation, with responsibilities and powers appropriate to the nature of the several committees and as provided by the Board of Directors in the resolution of appointment or in subsequent resolutions and directives. Such committees may include, but are not limited to, an audit committee and a compensation and human resources committee.

No member of any committee appointed by the Board of Directors shall continue to be a member thereof after he ceases to be a Director of the Corporation. However, where deemed in the best interests of the Corporation, to facilitate communication and utilize special expertise, directors of the Corporation's affiliated banks and corporations may be appointed to serve on such committees, as "affiliate representatives." Such affiliate representatives may attend and participate fully in meetings of such committees, but they shall not be entitled to vote on any matter presented to the meeting nor shall they be counted for the purpose of determining whether a quorum exists. The calling and holding of meetings of any such committee and its method of procedure shall be determined by the Board of Directors. To the extent permitted by law, a member of the Board of Directors, and any affiliate representative, serving on any such committee shall not be liable for any action taken by such committee if he has acted in good faith and in a manner the Director reasonably believed to be in the best interests of the Corporation. A member of a committee may participate in a meeting of the committee by means of a conference telephone or similar communications equipment by which all members participating in the meeting can communicate with each other, and participation by these means constitutes presence in person at the meeting.

ARTICLE VI

Officers

Section 1. Principal Officers. The principal officers of the Corporation shall be a Chairman of the Board, a Vice Chairman of the Board, a Chief Executive Officer, a President, one (1) or more Vice Presidents (which may include one (1) or more Executive Vice Presidents, Senior Vice Presidents, First Vice Presidents and/or other Vice Presidents), a Treasurer and a Secretary. The Corporation may also have, at the discretion of the Board of Directors, such other subordinate officers as may be appointed in accordance with the provisions of these Bylaws. The Board of Directors may, from time to time, designate a chief operating officer and a chief financial officer from among the principal officers of the Corporation. Any two (2) or more offices may be held by the same person. No person shall be eligible for the office of Chairman of the Board, Vice Chairman of the Board, Chief Executive Officer or President who is not a Director of the Corporation.

Section 2. Election and Term of Office. The principal officers of the Corporation shall be chosen annually by the Board of Directors at the annual meeting thereof. Each such officer shall hold office until his successor shall have been duly chosen and qualified, or until his death, or until he shall resign, or shall have been removed in the manner hereinafter provided.

Section 3. Removal. Any principal officer may be removed, either with or without cause, at any time, by resolution adopted at any meeting of the Board of Directors by a majority of the actual number of Directors elected and qualified from time to time.

Section 4. Subordinate Officers. In addition to the principal officers enumerated in Section 1 of this Article VI, the Corporation may have one or more Assistant Treasurers, one or more Assistant Secretaries and such other officers, agents and employees as the Board of Directors may deem necessary, each to hold office for such period, to have such authority, and to perform such duties as the Chief Executive Officer or the Board of Directors may from time to time determine. The Board of Directors may delegate to any principal officer the power to appoint and to remove, either with or without cause, any such subordinate officers, agents or employees.

Section 5. Resignations. Any officer may resign at any time by giving written notice to the Chairman of the Board of Directors, the Chief Executive Officer, the President, or the Secretary. Any such resignation shall take effect upon receipt of such notice or at any later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6. Vacancies. Any vacancy in any office for any cause may be filled for the unexpired portion of the term in the manner prescribed in these Bylaws for election or appointment to such office for such term.

Section 7. Chairman of the Board. The Chairman of the Board shall preside at all meetings of shareholders and at all meetings of the Board of Directors. The Chairman of the Board shall perform such other duties and have such other powers as, from time to time, may be assigned by the Board of Directors.

Section 8. Vice Chairman of the Board. The Vice Chairman of the Board shall act in the absence of the Chairman of the Board. The Vice Chairman of the Board shall perform such other duties and have such other powers as, from time to time, may be assigned by the Board of Directors.

Section 9. Chief Executive Officer. The Chief Executive Officer, subject to the control of the Board of Directors, shall have overall responsibility for the affairs of the Corporation, including responsibility for developing and attaining major corporate goals and implementing policies approved by the Board. In general, the Chief Executive Officer shall perform the duties and exercise the powers incident to the office of Chief Executive Officer and all such other duties and powers as, from time to time, may be assigned by the Board of Directors. In the absence or disability of the Chairman of the Board and Vice Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the shareholders and the Board of Directors at which the Chief Executive Officer is in attendance.

Section 10. President. The President shall perform the duties and exercise the powers incident to the office of President and all such other duties and powers as, from time to time, may be assigned by the Board of Directors or the Chief Executive Officer. Subject to the control and direction of the Board of Directors and the Chief Executive Officer, the President may enter into, execute and deliver any agreement, instrument or document in the name and on behalf of the Corporation.

Section 11. Vice Presidents. The Corporation shall have such Vice Presidents as the Board of Directors shall determine, which may include one (1) or more Executive Vice Presidents, Senior Vice Presidents, First Vice Presidents and/or other Vice Presidents. The Board of Directors shall designate one of the Vice Presidents (an Executive Vice President, if one has been appointed) to perform the duties and exercise the powers of the President in the absence or disability of the President. The Vice Presidents shall perform such duties and have such powers as the Chief Executive Officer, the President, or the Board of Directors may from time to time assign.

Section 12. Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds and securities of the Corporation and shall deposit all such funds in the name of the Corporation in such banks or other depositories as shall be selected by the Board of Directors. The Treasurer shall upon request exhibit at all reasonable times the Treasurer's books of account and records to any of the Directors of the Corporation during business hours at the office of the Corporation where such books and records shall be kept; shall render upon request by the Board of Directors a statement of the condition of the finances of the Corporation at any meeting of the Board of Directors or at the annual meeting of the shareholders; shall receive, and give receipt for, moneys due and payable to the Corporation from any source whatsoever; and in general, shall perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to the Treasurer by the Chief Executive Officer, the President, or the Board of Directors. The Treasurer shall give such bond, if any, for the faithful discharge of the Treasurer's duties as the Board of Directors may require. All acts affecting the Treasurer's duties and responsibilities shall be subject to the review and approval of the Corporation's chief financial officer.

Section 13. Secretary. The Secretary shall keep or cause to be kept in the books provided for that purpose the minutes of the meetings of the shareholders and of the Board of Directors; shall duly give and serve all notices required to be given in accordance with the provisions of these Bylaws and by the Act; shall be custodian of the records and of the seal of the Corporation and see that the seal is affixed to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these Bylaws; and, in general, shall perform all duties incident to the office of Secretary and such other duties as may, from time to time, be assigned to the Secretary by the Chief Executive Officer, the President, or the Board of Directors.

Section 14. Voting Corporation's Securities. Unless otherwise ordered by the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President and the Secretary, and each of them, are appointed attorneys and agents of the Corporation, and shall have full power and authority in the name and on behalf of the Corporation, to attend, to act, and to vote all stock or other securities entitled to be voted at any meetings of security holders of corporations, or associations in which the Corporation may hold securities, in person or by proxy, as a stockholder or otherwise, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities, and which as the owner thereof the Corporation might have possessed and exercised, if present, or to consent in writing to any action by any such other corporation or association. The Board of Directors by resolution from time to time may confer like powers upon any other person or persons.

ARTICLE VII

Indemnification

Section 1. Indemnification of Directors, Officers, Employees and Agents. Every person who is or was a Director, officer, employee or agent of this Corporation or of any other corporation for which he is or was serving in any capacity at the request of this Corporation shall be indemnified by this Corporation against any and all liability and expense that may be incurred by him in connection with or resulting from or arising out of any claim, action, suit or proceeding, provided that such person is wholly successful with respect thereto or acted in good faith in what he reasonably believed to be in or not opposed to the best interest of this Corporation or such other corporation, as the case may be, and, in addition, in any criminal action or proceeding in which he had no reasonable cause to believe that his conduct was unlawful. As used herein, "claim, action, suit or proceeding" shall include any claim, action, suit or proceeding (whether brought by or in the right of this Corporation or such other corporation or otherwise), civil, criminal, administrative or investigative, whether actual or threatened or in connection with an appeal relating thereto, in which a Director, officer, employee or agent of this Corporation may become involved, as a party or otherwise,

(i) by reason of his being or having been a Director, officer, employee, or agent of this Corporation or such other corporation or arising out of his status as such or

(ii) by reason of any past or future action taken or not taken by him in any such capacity, whether or not he continues to be such at the time such liability or expense is incurred.

The terms "liability" and "expense" shall include, but shall not be limited to, attorneys' fees and disbursements, amounts of judgments, fines or penalties, and amounts paid in settlement by or on behalf of a Director, officer, employee, or agent, but shall not in any event include any liability or expenses on account of profits realized by him in the purchase or sale of securities of the Corporation in violation of the law. The termination of any claim, action, suit or proceeding, by judgment, settlement (whether with or without court approval) or conviction or upon a plea of guilty or of nolo contendere, or its equivalent, shall not create a presumption that a Director, officer, employee, or agent did not meet the standards of conduct set forth in this paragraph.

Any such Director, officer, employee, or agent who has been wholly successful with respect to any such claim, action, suit or proceeding shall be entitled to indemnification as a matter of right. Except as provided in the preceding sentence, any indemnification hereunder shall be made only if

(i) the Board of Directors acting by a quorum consisting of Directors who are not parties to or who have been wholly successful with respect to such claim, action, suit or proceeding shall find that the Director, officer, employee, or agent has met the standards of conduct set forth in the preceding paragraph; or

(ii) independent legal counsel shall deliver to the Corporation their written opinion that such Director, officer, employee, or agent has met such standards of conduct.

If several claims, issues or matters of action are involved, any such person may be entitled to indemnification as to some matters even though he is not entitled as to other matters.

The Corporation may advance expenses to or, where appropriate, may at its expense undertake the defense of any such Director, officer, employee, or agent upon receipt of an undertaking by or on behalf of such person to repay such expenses if it should ultimately be determined that he is not entitled to indemnification hereunder.

The provisions of this Section shall be applicable to claims, actions, suits or proceedings made or commenced after the adoption hereof, whether arising from acts or omissions to act during, before or after the adoption hereof.

The rights of indemnification provided hereunder shall be in addition to any rights to which any person concerned may otherwise be entitled by contract or as a matter of law and shall inure to the benefit of the heirs, executors and administrators of any such person.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation against any liability asserted against him and incurred by him in any capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Section or otherwise.

ARTICLE VIII

Amendments

Except as expressly provided herein or in the Articles of Incorporation, the Board of Directors may make, alter, amend or repeal these Bylaws by an affirmative vote of a majority of the actual number of Directors elected and qualified.

EXHIBIT 13--FIRST MERCHANTS CORPORATION - ANNUAL REPORT 2004

FINANCIAL REVIEW

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(in thousands, except share data)	2004	2003	2002	2001	2000
Operations (3)					
Net Interest Income					
Fully Taxable Equivalent (FTE) Basis	$ 108,986	$ 106,899	$ 96,599	$ 66,806	$ 58,619
Less Tax Equivalent Adjustment	3,597	3,757	3,676	2,445	2,637
Net Interest Income	105,389	103,142	92,923	64,361	55,982
Provision for Loan Losses	5,705	9,477	7,174	3,576	2,625
Net Interest Income					
After Provision for Loan Losses	99,684	93,665	85,749	60,785	53,357
Total Other Income	34,554	35,902	27,077	18,543	16,634
Total Other Expenses	91,642	91,279	71,009	45,195	40,083
Income Before Income Tax Expense	42,596	38,288	41,817	34,133	29,908
Income Tax Expense	13,185	10,717	13,981	11,924	9,968
Net Income	$ 29,411	$ 27,571	$ 27,836	$ 22,209	$ 19,940
Per share data (1)(3)					
Basic Net Income	$ 1.59	$ 1.51	$ 1.70	$ 1.63	$ 1.51
Diluted Net Income	1.58	1.50	1.69	1.61	1.50
Cash Dividends Paid	.92	.90	.86	.84	.78
December 31 Book Value	16.93	16.42	15.24	12.82	11.61
December 31 Market Value (Bid Price)	28.30	25.51	21.67	21.78	19.54
Average balances (3)					
Total Assets	$3,109,104	$2,960,195	$2,406,251	$1,689,694	$1,532,691
Total Loans (4)	2,369,017	2,281,614	1,842,429	1,270,555	1,104,013
Total Deposits	2,365,306	2,257,075	1,857,053	1,331,631	1,209,015
Securities Sold Under Repurchase Agreements					
(long-term portion)	181		66,535	44,394	53,309
Total Federal Home Loan Bank Advances	225,375	208,733	155,387	103,941	80,008
Total Subordinated Debentures, Revolving					
Credit and Term Loans	96,230	94,203	52,756	2,571	
Total Stockholders' Equity	310,004	293,603	237,575	166,232	141,446
Year-end balances (3)					
Total Assets	$3,191,668	$3,076,812	$2,678,687	$1,787,035	$1,621,063
Total Loans (4)	2,431,418	2,356,546	2,025,922	1,359,893	1,175,586
Total Deposits	2,408,150	2,362,101	2,036,688	1,421,251	1,288,299
Securities Sold Under Repurchase Agreements					
(long-term portion)	320		23,632	32,500	32,500
Total Federal Home Loan Bank Advances	223,663	212,779	184,677	103,499	93,182
Total Subordinated Debentures, Revolving					
Credit and Term Loans	97,206	97,782	72,488	8,500	
Total Stockholders' Equity	314,603	303,965	261,129	179,128	156,063
Financial ratios (3)					
Return on Average Assets	.95%	.93%	1.16%	1.31%	1.30%
Return on Average Stockholders' Equity	9.49	9.39	11.72	13.36	14.10
Average Earning Assets to Total Assets	90.28	89.99	91.38	93.29	94.85
Allowance for Loan Losses as % of Total Loans	.93	1.08	1.11	1.11	1.06
Dividend Payout Ratio	58.23	60.00	50.89	52.17	52.00
Average Stockholders' Equity to Average Assets	9.97	9.92	9.87	9.84	9.23
Tax Equivalent Yield on Earning Assets (2)	5.72	5.98	6.83	7.80	8.19
Cost of Supporting Liabilities	1.84	1.97	2.44	3.56	4.16
Net Interest Margin on Earning Assets	3.88	4.01	4.39	4.24	4.03

(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 2004, 2003 and 2002 information are discussed in Note 2 to the Consolidated Financial Statements. Business combinations that affect the comparability of the 2001 and 2000 information are discussed in the Corporation's Forms 10-K for years ended December 31, 2003 and 2002.

(4) Includes loans held for sale.

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. Rather, credit scoring systems are used to assess credit risks. 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 rates 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 nature and volume of loans (delinquencies, charge-offs and nonaccrual loans), changes in mix, asset quality trends, 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 rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience.

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 2005 discount rate of 6.0 percent would increase the Corporation's 2005 pension expense by approximately $206,000. In addition, each 25 basis point reduction in the 2005 expected rate of return of 8.0 percent would increase the Corporation's 2005 pension expense by approximately $96,000.

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

CAPITAL 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 10 affiliate banks with over 70 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 10 nationally chartered banks: First Merchants Bank, N.A., The Madison Community Bank, N.A., First United Bank, N.A., The Randolph County Bank, N.A., Union County 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, 2005, Union County National Bank was merged into The Randolph County Bank, N.A., and the name of the continuing institution is United Communities National Bank. 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 our asset and liability balances are managed within prudent ranges, while ensuring

BUSSINESS SUMMARY continued

adequate liquidity and funding. Our stockholder value has continued to increase due to customer satisfaction and the balanced way we manage our business risk.

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. 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, 2003 total assets equaled $3,076,812,000, an increase of $398,125,000 from December 31, 2002. Of this amount, loans increased $349,126,000, investments increased $14,735,000, intangibles, including goodwill, increased $35,506,000 and cash value of life insurance increased by $23,618,000. The addition of Commerce National Bank on March 1, 2003 accounted for $298,702,000 in loan growth, $12,500,000 in investment growth and most of the increase in intangibles.

Absent Commerce National Bank, total loans increased by $50,424,000 in 2003. Positive growth of commercial and industrial and commercial real estate loans of $73,436,000 was mitigated by declines in installment loans and residential real estate loans of $12,166,000 and $9,776,000, respectively.

The Corporation also completed the purchase of $23 million in Bank Owned Life Insurance (BOLI) during May, 2003. The BOLI yield is 8.34 percent on a fully tax equivalent basis, adjustable annually. The tax-free investment was used to offset the cost of current employee benefit programs.

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.

Net income for 2003 totaled $27,571,000, down from $27,836,000 in 2002. The $265,000 decrease was attributable to several factors, including compression of the net interest margin, increased provision for loan losses and increased noninterest expenses. These factors and others are discussed within the respective sections of Management's Discussion and Analysis of Financial Condition and Results of Operations. Diluted earnings per share totaled $1.50, a 11.2 percent decrease from $1.69 reported for 2002.

Return on equity totaled 9.49 percent in 2004, 9.39 percent in 2003 and 11.72 percent in 2002. Return on assets totaled .95 percent in 2004, .93 percent in 2003 and 1.16 percent in 2002. 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.

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 7.50 percent and 7.38 percent at December 31, 2004 and 2003, respectively. In addition, at December 31, 2004, the Corporation had a Tier I risk-based capital ratio of 9.57 percent and total risk-based capital ratio of 11.57 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 9.86 percent as of December 31, 2004, down from 9.88 percent in 2003. 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 5.92 percent as of December 31, 2004 up from 5.78 percent in 2003.

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, 2004	December 31, 2003
Average Goodwill	$ 112,281	$ 107,232
Average Core Deposit Intangible (CDI)	22,164	24,393
Average Deferred Tax on CDI	(8,105)	(8,951)
Intangible Adjustment	$ 126,340	$ 122,674
Average Stockholders' Equity (GAAP Capital)	$ 310,004	$ 293,603
Intangible Adjustment	(126,340)	(122,674)
Average Tangible Capital	$ 183,664	$ 170,929
Average Assets	$3,109,104	$2,960,195
Intangible Adjustment	(126,340)	(122,674)
Average Tangible Assets	$2,982,764	$2,837,521
Net Income	$ 29,411	$ 27,571
CDI Amortization, net of tax	2,133	2,341
Tangible Net Income	$ 31,544	$ 29,912
Diluted Earnings per Share	$ 1.58	$ 1.50
Diluted Tangible Earnings per Share	$ 1.69	$ 1.63
Return on Average GAAP Capital	9.49%	9.39%
Return on Average Tangible Capital	17.49%	17.50%
Return on Average Assets	0.95%	0.93%
Return on Average Tangible Assets	1.06%	1.05%

ASSET QUALITY/PROVISION FOR LOAN LOSSES

The Corporation's primary business focus is 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 primarily provided by an outside accounting firm. 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, 2004, non-performing loans totaled $19,281,000, a decrease of $7,343,000, as noted in the following table. Loans 90 days past due other than non-accrual and restructured loans decreased by $4,623,000. The amount of non-accrual loans, totaling $15,355,000 at December 31, 2004, 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, 2004, impaired loans totaled $49,411,000, an increase of $4,639,000 from year end 2003. At December 31, 2004, a specific allowance for losses was not deemed necessary for impaired loans totaling $41,683,000, but a specific allowance of $1,673,000 was recorded for the remaining balance of impaired loans of $7,728,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for 2004 was $59,568,000. The increase of total impaired loans of $4,639,000 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, 2004, the allowance for loan losses was $22,548,000, a decrease of $2,945,000 from year end 2003. As a percent of loans, the allowance was .93 percent at December 31, 2004 and 1.08 percent at December 31, 2003. Management believes that the allowance for loan losses is adequate to cover losses inherent in the loan portfolio at December 31, 2004. 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 2004 was $5,705,000, a decrease of $3,772,000 from $9,477,000 in 2003. The Corporation's allowance for loan losses reflects decreased non-performing loans as noted in the following table and decreased specific reserves, resulting in decreased provision expense.

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, 2004	December 31, 2003
Non-accrual loans	$ 15,355	$ 19,453
Loans contractually past due 90 days or more other than non-accruing	1,907	6,530
Restructured loans	2,019	641
Total	$ 19,281	$ 26,624

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

(Dollars in Thousands)	2004	2003	2002
Allowance for loan losses:			
Balance at January 1	$25,493	$22,417	$15,141
Chargeoffs	10,901	12,139	8,113
Recoveries	2,251	2,011	1,313
Net chargeoffs	8,650	10,128	6,800
Provision for loan losses	5,705	9,477	7,174
Allowance acquired in acquisitions		3,727	6,902
Balance at December 31	$22,548	$25,493	$22,417
Ratio of net chargeoffs during the period to average loans outstanding during the period	.37%	.44%	.37%

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.

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

LIQUIDITY continued

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") as a funding source. At December 31, 2004, total borrowings from the FHLB were $223,663,000. The Corporation's bank subsidiaries have pledged certain mortgage loans and certain investments to the FHLB. The total available remaining borrowing capacity from the FHLB at December 31, 2004, was $148,451,000.

The principal source of asset-funded liquidity is investment securities classified as available-for-sale, the market values of which totaled $416,177,000 at December 31, 2004. 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 $1,110,000 at December 31, 2004. 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 and commitments under operating leases.

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, 2004 are as follows:

(Dollars in Thousands)	At December 31, 2004
Amounts of commitments:	
Loan commitments to extend credit	$ 540,087
Standby letters of credit	22,024
	$ 562,111

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, 2004 are as follows:

(Dollars in Thousands)	2005	2006	2007	2008	2009	2010 and after	Total
Operating leases	$ 1,746	$ 1,515	$ 1,145	$ 880	$ 829	$ 2,287	$ 8,402
Federal funds purchased	32,550						32,550
Securities sold under repurchase agreements	87,152	320					87,472
Federal Home Loan Bank Advances	33,477	29,859	24,995	19,306	9,428	106,598	223,663
Subordinated debentures, revolving credit lines and term loans	8,250					88,956	97,206
Total	$163,175	$31,694	$26,140	$20,186	$ 10,257	$ 197,841	$449,293

The Corporation's purchase obligations have no material impact in its cash flow or liquidity and, accordingly, has not been included in the above table.

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.

INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK continued

Management believes that the Corporation's liquidity and interest sensitivity position at December 31, 2004, 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, 2004.

(Dollars in Thousands)	At December 31, 2004				
	1-180 DAYS	181-365 DAYS	1-5 YEARS	BEYOND 5 YEARS	TOTAL
Rate-Sensitive Assets:					
Federal funds sold and interest-bearing deposits	$ 9,343				$ 9,343
Investment securities	37,978	$ 47,068	$ 223,942	$ 112,547	421,535
Loans	1,198,089	252,368	831,534	149,427	2,431,418
Federal Reserve and Federal Home Loan Bank stock			21,323	1,535	22,858
Total rate-sensitive assets	1,245,410	299,436	1,076,799	263,509	2,885,154
Rate-Sensitive Liabilities:					
Interest-bearing deposits	1,411,013	173,153	489,473	3,826	2,077,465
Securities sold under repurchase agreements	87,472				87,472
Federal Home Loan Bank advances	9,750	21,174	87,664	105,075	223,663
Subordinated debentures, revolving credit lines and term loans	13,250			83,956	97,206
Total rate-sensitive liabilities	1,521,485	194,327	577,137	192,857	2,485,806
Interest rate sensitivity gap by period	$ (276,075)	$ 105,109	$ 499,662	$ 70,652	
Cumulative rate sensitivity gap	(276,075)	(170,966)	328,696	399,348	
Cumulative rate sensitivity gap ratio					
at December 31, 2004	81.9%	90.0%	114.3%	116.1%	
at December 31, 2003	73.6%	83.6%	111.6%	115.1%	

The Corporation had a cumulative negative gap of $170,966,000 in the one-year horizon at December 31, 2004, just over 5.4 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 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)%

The comparative rising and falling scenarios for the period ending December 31, 2004 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, 2004 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(200) Basis Points
Federal Funds	200	(100)
One-Year T-Bill	200	(138)
Two-Year T-Bill	200	(194)
Interest Checking	100	(14)
MMIA Savings	100	(24)
First Flex	100	(24)
CD's	200	(59)
FHLB Advances	200	(117)

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)	$100,873	$102,792	$ 87,217
Variance from base		$ 1,919	$(13,656)
Percent of change from base		1.90%	(13.54)%

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

EARNING ASSETS

Earnings assets increased approximately $115.7 million during 2004 as compared to 2003. Loans grew by $74.5 million. Positive growth of commercial and industrial and commercial, construction and farmland real estate loans of approximately $178.9 million was mitigated by a $105.3 million decline in residential real estate loans.

Investment securities increased by $64.7 million. The Corporation purchased agency mortgage-backed securities, including ten year amortizing pools and five and seven year mortgage balloon pools. In addition, three to five year tax exempt state and municipal securities and federal agency securities were purchased during 2004.

The table below reflects the earning asset mix for the years 2004 and 2003 (at December 31).

Earning Assets
(Dollars in Millions)

	December 31, 2004	December 31, 2003
Federal funds sold and interest-bearing time deposits	$ 9.3	$ 40.6
Securities available for sale	416.2	348.9
Securities held to maturity	5.4	7.9
Mortgage loans held for sale	3.4	3.0
Loans	2,428.0	2,353.6
Federal Reserve and Federal Home Loan Bank stock	22.9	15.5
Total	$2,885.2	$2,769.5

DEPOSITS AND BORROWINGS

The table below reflects the level of deposits and borrowed funds (repurchase agreements; Federal Home Loan Bank advances; subordinated debentures, revolving credit lines and term loans; and other borrowed funds) based on year-end levels at December 31, 2004 and 2003.

(Dollars in Millions)	December 31, 2004	December 31, 2003
Deposits	$ 2,408.2	$ 2,362.1
Federal funds purchased	32.6	
Securities sold under repurchase agreements	87.5	71.1
Federal Home Loan Bank advances	223.7	212.8
Subordinated debentures, revolving credit lines and term loans	97.2	97.8
Other borrowed funds		1.5

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 reflects 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 2004.

NET INTEREST INCOME continued

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.

In 2003, asset yields decreased 85 basis points (FTE) and interest cost decreased 47 basis points, resulting in a 38 basis point (FTE) decrease in net interest income as compared with 2002. The margin compression was primarily a result of a stressed Indiana economy and an interest rate cycle that approximated a 40-year low during 2003.

(Dollars in Thousands)	December 31, 2004	2003	2002
Net Interest Income	$ 105,389	$ 103,142	$ 92,923
FTE Adjustment	$ 3,597	$ 3,757	$ 3,676
Net Interest Income On a Fully Taxable Equivalent Basis	$ 108,986	$ 106,899	$ 96,599
Average Earning Assets	$2,806,776	$ 2,663,853	$2,198,943
Interest Income (FTE) as a Percent of Average Earning Assets	5.72%	5.98%	6.83%
Interest Expense as a Percent of Average Earning Assets	1.84%	1.97%	2.44%
Net Interest Income (FTE) as a Percent of Average Earning Assets	3.88%	4.01%	4.39%

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 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.

OTHER INCOME continued

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 income in 2003 amounted to $35,902,000 or 32.6 percent higher than in 2002. The increase of $8,825,000 is primarily attributable to the following factors:

1. Net gains and fees on sales of mortgage loans included in other income increased by $4,676,000 due to increased mortgage volume during most of 2003.

   In addition, decreasing mortgage loan rates during the first three quarters of 2003 caused an increase in refinancing volume, which facilitated an increase in loan sales activity.

2. Service charges on deposit accounts increased $1,775,000 or 19.0 percent due to increased number of accounts, price adjustments and approximately $742,000 of additional service charge income related to April 1, 2002 acquisition of Lafayette.

3. Life insurance proceeds included in other income was $535,000 for 2003, compared to $0 for the same period last year.

4. Insurance commissions increased by $465,000 or 21.1 percent primarily as a result of the September 6, 2002 acquisition of Stephenson Insurance Services, Inc.

5. Revenues from fiduciary activities increased $478,000 or 7.6 percent due primarily to the additional fees related to the acquisition of Lafayette.

OTHER EXPENSES

Other expenses represent non-interest operating expenses of the Corporation. 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 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.

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.

OTHER EXPENSES continued

Other expenses represent non-interest operating expenses of the Corporation. Other expenses amounted to $91,279,000 in 2003, an increase of 28.5 percent from the prior year, or $20,270,000. The following factors account for most of the increase:

1. Salaries and benefit expense grew $11,334,000 or 29.0 percent, due to normal salary increases, staff additions and additional salary cost related to the April 1, 2002 acquisition of Lafayette and the March 1, 2003 acquisition of Commerce National.

2. Net occupancy expenses increased by $1,262,000 or 34.7 percent primarily due to the acquisitions of Lafayette and Commerce National.

3. Equipment expense increased by $1,364,000 or 20.3 percent primarily due to the acquisitions of Lafayette and Commerce National.

4. Core deposit intangible amortization increased by $1,111,000, due to the acquisitions of Lafayette and Commerce National.

5. Prepayment penalties for early prepayment of FHLB advances totaled $340,000 for 2003 and no such penalties were incurred during 2002.

6. Investment securities write-downs totaling $615,000 were incurred in 2003, resulting from other-than-temporary losses being recognized on two securities.

INCOME TAXES

Income tax expense totaled $13,185,000 for 2004, which is an increase of $2,468,000 from 2003. The 2004 increase in tax expense is primarily a result of the increase of the 2004 income before income tax, as compared to 2003.

In addition, the effective tax rates for the periods ending December 31, 2004, 2003 and 2002 were 31.0 percent, 28.0 percent and 33.4 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

INFLATION continued

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.

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, 2004 and 2003, 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, 2004. 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, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, 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, 2004 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 28, 2005 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 28, 2005

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(in thousands, except share data)	December 31, 2004	December 31, 2003
Assets		
Cash and due from banks	$ 69,960	$ 77,112
Federal funds sold		32,415
Cash and cash equivalents	69,960	109,527
Interest-bearing time deposits	9,343	8,141
Investment securities		
Available for sale	416,177	348,860
Held to maturity (fair value of $5,520 and $8,326)	5,358	7,937
Total investment securities	421,535	356,797
Mortgage loans held for sale	3,367	3,043
Loans, net of allowance for loan losses of $22,548 and $25,493	2,405,503	2,328,010
Premises and equipment	38,254	39,639
Federal Reserve and Federal Home Loan Bank stock	22,858	15,502
Interest receivable	17,318	16,840
Core deposit intangibles	20,669	24,044
Goodwill	120,615	118,679
Cash value of life insurance	42,061	37,927
Other assets	20,185	18,663
Total assets	$ 3,191,668	$ 3,076,812
Liabilities		
Deposits		
Noninterest-bearing	$ 330,685	$ 338,201
Interest-bearing	2,077,465	2,023,900
Total deposits	2,408,150	2,362,101
Borrowings	440,891	383,170
Interest payable	4,411	4,680
Other liabilities	23,613	22,896
Total liabilities	2,877,065	2,772,847
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 -- 18,573,997 and 18,512,834 shares	2,322	2,314
Additional paid-in capital	150,862	150,310
Retained earnings	161,459	149,096
Accumulated other comprehensive income (loss)	(40)	2,245
Total stockholders' equity	314,603	303,965
Total liabilities and stockholders' equity	$ 3,191,668	$ 3,076,812

See notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Income

(in thousands, except share data)	Year Ended December 31,		
	2004	2003	2002
Interest income			
Loans receivable			
Taxable	$139,953	$141,236	$129,279
Tax exempt	581	707	638
Investment securities			
Taxable	8,371	6,105	9,086
Tax exempt	6,098	6,270	6,190
Federal funds sold	165	487	557
Deposits with financial institutions	555	76	197
Federal Reserve and Federal Home Loan Bank stock	1,251	649	735
Total interest income	156,974	155,530	146,682
Interest expense			
Deposits	33,844	34,858	39,700
Securities sold under repurchase agreements	517	1,521	2,060
Federal Home Loan Bank advances	9,777	9,439	8,166
Subordinated debentures, revolving credit and term loans	6,784	6,161	3,756
Other borrowings	663	409	77
Total interest expense	51,585	52,388	53,759
Net interest income	105,389	103,142	92,923
Provision for loan losses	5,705	9,477	7,174
Net interest income after provision for loan losses	99,684	93,665	85,749
Other income			
Fiduciary activities	7,632	6,736	6,258
Service charges on deposit accounts	11,638	11,105	9,330
Other customer fees	4,083	4,124	3,918
Net realized gains on sales of available-for-sale securities	1,188	950	739
Commission income	3,088	2,668	2,203
Earnings on cash surrender value of life insurance	1,798	1,347	689
Net gains and fees on sales of loans	3,629	6,388	1,712
Other income	1,498	2,584	2,228
Total other income	34,554	35,902	27,077
Other expenses			
Salaries and employee benefits	52,479	50,484	39,150
Net occupancy expenses	5,308	4,894	3,632
Equipment expenses	7,665	8,073	6,709
Marketing expenses	1,709	1,797	1,495
Outside data processing fees	4,920	4,118	3,664
Printing and office supplies	1,580	1,706	1,597
Core deposit amortization	3,375	3,704	2,589
Other expenses	14,606	16,503	12,173
Total other expenses	91,642	91,279	71,009
Income before income tax	42,596	38,288	41,817
Income tax expense	13,185	10,717	13,981
Net income	$ 29,411	$ 27,571	$ 27,836
Net income per share:			
Basic	$ 1.59	$ 1.51	$ 1.70
Diluted	1.58	1.50	1.69

See notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Comprehensive Income

Year Ended December 31, (in thousands)	2004	2003	2002
Net income	$ 29,411	$ 27,571	$ 27,836
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities available for sale:			
Unrealized holding gains (losses) arising during the period, net of income tax (expense) benefit of $1,199, $1,465, and $(2,426)	(1,799)	(2,197)	3,639
Less: Reclassification adjustment for gains included in net income, net of income tax expenses of $(475), $(380), and $(296)	713	570	443
Unrealized loss on pension minimum funding liability:			
Unrealized loss arising during the period, net of income tax benefit of $150, $357, and $879	(227)	(536)	(1,318)
	(2,285)	(2,231)	1,878
COMPREHENSIVE INCOME	$ 27,126	$ 25,340	$ 29,714

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, 2002	12,670,307	$ 1,584	$ 50,642	$ 124,304	$ 2,598	$ 179,128
Net income for 2002				27,836		27,836
Cash dividends ($.86 per share)				(13,995)		(13,995)
Other comprehensive income (loss), net of tax					1,878	1,878
Stock issued under employee benefit plans	35,613	4	654			658
Stock issued under dividend reinvestment and stock purchase plan	28,487	5	946			951
Stock options exercised	49,689	6	488			494
Stock redeemed	(148,405)	(20)	(4,313)			(4,333)
Issuance of stock related to acquisitions	2,912,869	364	68,183			68,547
Five percent (5%) stock dividend	774,188	97	(97)			
Cash paid in lieu of fractional shares				(35)		(35)
Balances, December 31, 2002	16,322,748	2,040	116,503	138,110	4,476	261,129
Net income for 2003				27,571		27,571
Cash dividends ($.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

See notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Cash Flows

(in thousands, except share data)	Year Ended December 31, 2004	2003	2002
Operating activities:			
Net income	$ 29,411	$ 27,571	$ 27,836
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	5,705	9,477	7,174
Depreciation and amortization	5,064	4,769	4,273
Mortgage loans originated for sale	(83,313)	(212,243)	(140,584)
Proceeds from sales of mortgage loans	82,989	230,745	126,905
Net change in			
Interest receivable	(478)	1,368	763
Interest payable	(269)	(1,695)	(1,318)
Other adjustments	842	5,677	(7,354)
Net cash provided by operating activities	39,951	65,669	17,695
Investing activities:			
Net change in interest-bearing deposits	(1,202)	(4,573)	10,729
Purchases of			
Securities available for sale	(214,393)	(260,467)	(182,511)
Proceeds from maturities of			
Securities available for sale	116,294	174,003	164,273
Securities held to maturity			4,307
Proceeds from sales of			
Securities available for sale	32,336	58,245	21,363
Purchase of Federal Reserve and Federal Home Loan Bank stock	(7,356)	(4,093)	(3,059)
Net change in loans	(83,198)	(56,825)	(100,650)
Net cash paid in acquisition	(201)	(7,793)	(12,532)
Other adjustments	(6,106)	(2,262)	(2,435)
Net cash used by investing activities	(163,826)	(103,765)	(100,515)
Cash flows from financing activities:			
Net change in			
Demand and savings deposits	89,008	39,400	34,818
Certificates of deposit and other time deposits	(42,959)	14,476	(26,662)
Receipt of borrowings	181,211	73,303	138,981
Repayment of borrowings	(124,763)	(84,755)	(32,047)
Cash dividends	(17,048)	(16,557)	(13,995)
Stock issued under employee benefit plans	903	819	658
Stock issued under dividend reinvestment and stock purchase plan	1,278	1,224	951
Stock options exercised	1,404	1,191	494
Stock redeemed	(4,726)	(488)	(4,333)
Cash paid in lieu of issuing fractional shares		(28)	(35)
Net cash provided by activities	84,308	28,585	98,830
Net change in cash and cash equivalents	(39,567)	(9,511)	16,010
Cash and cash equivalents, beginning of year	109,527	119,038	103,028
Cash and cash equivalents, end of year	$ 69,960	$ 109,527	$ 119,038
Additional cash flows information:			
Interest paid	$ 51,854	$ 53,727	$ 53,228
Income tax paid	10,501	13,952	14,313

See notes to consolidated financial statements.

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"), The Randolph County Bank, N.A. ("Randolph County"), The Union County National Bank ("Union National"), 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"), Indiana Title Insurance Company ("ITIC") and CNBC Retirement Services, Inc. ("CRS, Inc."), 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, 2005, Union National was merged into Randolph County, and the name of the continuing institution is United Communities National Bank.

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, including trust 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. Rather, credit scoring systems are used to assess credit risks. 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 rates 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 nature and volume of loans (delinquencies, charge-offs and nonaccrual loans), changes in mix, asset quality trends, 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 rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience.

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 and $23,000 in 2002, 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.

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		
	2004	2003	2002
Net income, as reported	$29,411	$27,571	$27,836
Add: Total stock-based employee compensation cost included in reported net income, net of income taxes		12	23
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(1,083)	(1,034)	(1,029)
Pro forma net income	$28,328	$26,549	$26,830
Earnings per share:			
Basic - as reported	$ 1.59	$ 1.51	$ 1.70
Basic - pro forma	$ 1.53	$ 1.46	$ 1.64
Diluted - as reported	$ 1.58	$ 1.50	$ 1.69
Diluted - pro forma	$ 1.52	$ 1.45	$ 1.63

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

NOTE 2

BUSINESS COMBINATIONS

Effective October 15, 2004, the Corporation acquired Mangas Agencies, Inc., which was merged into FMIS, a wholly-owned subsidiary of the Corporation. The Corporation

(table dollar amounts in thousands, except share data)

NOTE 2

BUSINESS COMBINATIONS continued

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, CRS, Inc. 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. CRS, Inc. and the CNBC Trust I are also maintained as wholly-owned subsidiaries 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

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 at the beginning of each period.

	Year Ended December 31,	
	2003	2002
Net Interest Income	$104,797	$102,641
Net Income	23,601	29,454
Per Share - combined:		
Basic Net Income	1.28	1.67
Diluted Net Income	1.27	1.66

Effective January 1, 2003, the Corporation formed MTC, a wholly-owned subsidiary of the Corporation, through a capital contribution totaling approximately $2,038,000.

(table dollar amounts in thousands, except share data)

NOTE 2

BUSINESS COMBINATIONS continued

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.

Effective September 6, 2002, the Corporation acquired Stephenson Insurance Service, Inc., which was merged into FMIS, a wholly-owned subsidiary of the Corporation. The Corporation issued 38,090 shares of its common stock at a cost of $26.16 per share to complete the transaction. This acquisition was deemed to be an immaterial acquisition.

On April 1, 2002, the Corporation acquired 100 percent of the outstanding stock of Lafayette Bancorporation, the holding company of 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 goodwill of $57,893,000 none of which 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 income statement beginning April 1, 2002. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Investments	$104,717
Loans	552,016
Premises and equipment	10,269
Core deposit intangibles	16,052
Goodwill	57,893
Other	64,074
Total assets acquired	805,021
Deposits	607,281
Other	81,762
Total liabilities acquired	689,043
Net assets acquired	$115,978

(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 Lafayette merger had taken place at the beginning of each period.

	Year Ended December 31, 2002
Net Interest Income	$ 98,855
Net Income	28,016
Per share - combined:	
Basic Net Income	1.16
Diluted Net Income	1.60

Effective January 1, 2002, the Corporation acquired Delaware County Abstract Company, Inc. and Beebe & Smith Title Insurance Company, Inc., which were merged into ITIC, a wholly-owned subsidiary of the Corporation. The Corporation issued approximately 114,365 shares of its common stock at a cost of $21.31 per share to complete the transaction. ITIC's operations were subsequently contributed to Indiana Title Insurance Company, LLC in which the Corporation has a 52.12 percent ownership interest. This acquisition was deemed to be an immaterial acquisition.

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, 2004, was $4,397,000.

(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, 2004				
U.S. Treasury	$ 1,745		$ 1	$ 1,744
Federal agencies	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
Available for sale at December 31, 2003				
U.S. Treasury	$ 1,498			$ 1,498
Federal agencies	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

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 $192,366,000 and $102,973,000 at December 31, 2004 and 2003, respectively. Total fair value of these investments was $189,971,000 and $101,018,000, which is approximately 45.1 and 28.3 percent of the Corporation's available-for-sale and held-to-maturity investment portfolio at December 31, 2004 and 2003, 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.

(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, 2004 and 2003:

	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)
Federal agencies	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)

	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, 2003:						
Federal agencies	$ 7,410	$ (50)	$ 747	$ (2)	$ 8,157	$ (52)
State and municipal	2,547	(82)	166	(4)	2,713	(86)
Mortgage-backed securities	90,148	(1,817)			90,148	(1,817)
Total temporarily impaired investment securities	$ 100,105	$ (1,949)	$ 913	$ (6)	$ 101,018	$ (1,955)

The amortized cost and fair value of securities available for sale and held to maturity at December 31, 2004, 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, 2004:				
Due in one year or less	$ 13,026	$ 13,128	$ 1,110	$ 1,125
Due after one through five years	129,277	130,362	2,760	2,856
Due after five through ten years	50,916	53,439	295	328
Due after ten years	24,132	25,323	1,141	1,159
	217,351	222,252	5,306	5,468
Mortgage-backed securities	183,200	181,705	52	52
Other asset-backed securities	21	21		
Marketable equity securities	12,191	12,199		
Totals	$ 412,763	$ 416,177	$ 5,358	$ 5,520

Securities with a carrying value of approximately $157,356,000 and $158,474,000 were pledged at December 31, 2004 and 2003 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 2004, 2003 and 2002 were $32,336,000, $58,245,000 and $21,363,000. Gross gains of $1,502,000, $950,000 and $739,000 in 2004, 2003 and 2002, and gross losses of $314,000 in 2004 were realized on those sales.

(table dollar amounts in thousands, except share data)

NOTE 5

LOANS AND ALLOWANCE

	2004	2003
Loans at December 31:		
Commercial and industrial loans	$ 462,538	$ 443,140
Agricultural production financing and other loans to farmers	98,902	95,048
Real estate loans:		
Construction	164,738	149,865
Commercial and farmland	709,163	564,578
Residential	761,163	866,477
Individuals' loans for household and other personal expenditures	198,532	196,093
Tax-exempt loans	8,203	16,363
Other loans	24,812	21,939
	2,428,051	2,353,503
Allowance for loan losses	(22,548)	(25,493)
Total loans	$2,405,503	$2,328,010

	2004	2003	2002
Allowance for loan losses:			
Balance, January 1	$ 25,493	$ 22,417	$ 15,141
Allowance acquired in acquisitions		3,727	6,902
Provision for losses	5,705	9,477	7,174
Recoveries on loans	2,251	2,011	1,313
Loans charged off	(10,901)	(12,139)	(8,113)
Balance, December 31	$ 22,548	$ 25,493	$ 22,417

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

	2004	2003	2002
At December 31:			
Non-accrual loans	$ 15,355	$ 19,453	$ 14,134
Loans contractually past due 90 days or more other than nonaccruing	1,907	6,530	6,676
Restructured loans	2,019	641	2,508
Total non-performing loans	$ 19,281	$ 26,624	$ 23,318

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:	2004	2003	2002
As of, and for the year ending December 31:			
Impaired loans with an allowance	$ 7,728	$ 12,725	$ 16,901
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	41,683	32,047	27,450
Total impaired loans	$ 49,411	$ 44,772	$ 44,351
Total impaired loans as a percent of total loans	2.03%	1.90%	2.19%
Allowance for impaired loans (included in the Corporation's allowance for loan losses)	$ 1,673	$ 5,728	$ 7,299
Average balance of impaired loans	59,568	50,245	49,663
Interest income recognized on impaired loans	4,166	3,259	3,656
Cash basis interest included above	3,029	2,714	2,344

NOTE 6

PREMISES AND EQUIPMENT

	2004	2003
Cost at December 31:		
Land	$ 8,281	$ 7,463
Buildings and leasehold improvements	40,520	40,308
Equipment	38,852	38,777
Total cost	87,653	86,548
Accumulated depreciation and amortization	(49,399)	(46,909)
Net	$ 38,254	$ 39,639

The Corporation is committed under various noncancelable lease contracts for certain subsidiary office facilities. Total lease expense for 2004, 2003 and 2002 was $2,151,000, $1,629,000 and $1,027,000, respectively. The future minimum rental commitments required under the operating leases in effect at December 31, 2004, expiring at various dates through the year 2013 are as follows for the years ending December 31:

2005	$ 1,746
2006	1,515
2007	1,145
2008	880
2009	829
After 2009	2,287
Total future minimum obligations	$ 8,402

(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 2004 and 2003.

	2004	2003
Balance, January 1	$ 118,679	$ 87,640
Goodwill acquired	1,900	30,291
Adjustments to previously acquired goodwill	36	748
Balance, December 31	$ 120,615	$ 118,679

NOTE 8

CORE DEPOSIT INTANGIBLES

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

	2004	2003
Gross carrying amount	$ 31,073	$ 31,073
Accumulated amortization	(10,404)	(7,029)
Core deposit intangibles	$ 20,669	$ 24,044

Amortization expense for the years ended December 31, 2004, 2003 and 2002, was $3,375,000, $3,704,000 and $2,571,000, respectively. Estimated amortization expense for each of the following five years is:

2005	$ 3,065
2006	3,013
2007	3,013
2008	3,013
2009	3,013
After 2009	5,552
	$ 20,669

NOTE 9

DEPOSITS

	2004	2003
Deposits at December 31:		
Demand deposits	$ 703,989	$ 706,202
Savings deposits	634,132	643,328
Certificates and other time deposits of $100,000 or more	258,362	279,810
Other certificates and time deposits	811,667	732,761
Total deposits	$2,408,150	$2,362,101

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

NOTE 9

DEPOSITS continued

Certificates and other time deposits maturing in years ending December 31:	
2005	$ 608,607
2006	214,577
2007	168,394
2008	47,572
2009	27,009
After 2009	3,870
	$1,070,029

NOTE 10

BORROWINGS

	2004	2003
Borrowings at December 31:		
Federal funds purchased	$ 32,550	
Securities sold under repurchase agreements	87,472	$ 71,095
Federal Home Loan Bank advances	223,663	212,779
Subordinated debentures, revolving credit lines and term loans	97,206	97,782
Other borrowed funds		1,514
Total borrowings	$ 440,891	$ 383,170

Securities sold under repurchase agreements consist of obligations of the Banks to other parties. The obligations are secured by U.S. Treasury, Federal agency obligations and corporate asset-backed securities. The maximum amount of outstanding agreements at any month-end during 2004 and 2003 totaled $87,472,000 and $74,969,000, and the average of such agreements totaled $62,669,000 and $70,354,000 during 2004 and 2003.

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, 2004, are as follows:

	SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	FEDERAL HOME LOAN BANK ADVANCES	SUBORDENATED DEBENTURES REVOLOVING CREDIT LINES AND TERM LOANS
	AMOUNT	AMOUNT	AMOUNT
Maturities in years ending December 31:			
2005	$ 87,152	$ 33,477	$ 8,250
2006	320	29,859	
2007		24,995	
2008		19,306	
2009		9,428	
After 2009		106,598	88,956
Total	$ 87,472	$ 223,663	$ 97,206

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 160 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, 2004, was $148,451,000.

Subordinated Debentures, Revolving Credit Lines and Term Loans. Three borrowings were outstanding on December 31, 2004, for $97,206,000.

- 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. The outstanding balance of a Loan and Subordinated Debenture Loan Agreement ("LaSalle Agreement") entered into with LaSalle Bank, N.A. on March 25, 2003 for $38,250,000. The LaSalle Agreement includes three credit facilities:

    - The Term Loan of $5,000,000 matures on March 25, 2010. Interest is calculated at a floating rate equal to the lender's prime rate or LIBOR plus 1.50 percent. The Term Loan is secured by 100 percent of the common stock of First Merchants Bank, N.A. and 100 percent of the common stock of Lafayette Bank and Trust Company, N.A. 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 $8,250,000 at December 31, 2004. Interest is payable quarterly based on LIBOR plus 1 percent. Principal and interest are due on or before March 23,2005. 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 Bank, N.A. and 100 percent of the common stock of Lafayette Bank and Trust Company, N.A. The Agreement contains several restrictive covenants, including the maintenance of various capital adequacy levels,

(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 25, 2010. Interest is calculated at a floating rate equal to, at the Corporation's option, either the lender's prime rate or LIBOR plus 2.50 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 $113,344,000, $105,865,000 and $90,346,000 at December 31, 2004, 2003 and 2002. The amount of capitalized servicing assets is considered immaterial.

NOTE 12

INCOME TAX

	2004	2003	2002
Income tax expense for the year ended December 31:			
Currently payable:			
Federal	$ 11,934	$ 9,475	$ 11,869
State	1,772	1,569	2,615
Deferred:			
Federal	(615)	(597)	(446)
State	94	270	(57)
Total income tax expense	$ 13,185	$ 10,717	$ 13,981
Reconciliation of federal statutory to actual tax expense:			
Federal statutory income tax at 34%	$ 14,483	$ 13,030	$ 14,085
Tax-exempt interest	(2,098)	(2,198)	(2,006)
Graduated tax rates	335	289	355
Effect of state income taxes	1,178	1,213	1,613
Earnings on life insurance	(472)	(512)	(133)
Tax credits	(274)	(317)	(293)
Other	33	(788)	360
Actual tax expense	$ 13,185	$ 10,717	$ 13,981

Tax expense applicable to security gains and losses for the years ended December 31, 2004, 2003 and 2002, was $475,000, $380,000, and $296,000, respectively.

(table dollar amounts in thousands, except share data)

NOTE 12

INCOME TAX continued

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

	2004	2003
Deferred tax liability at December 31:		
Assets:		
Differences in accounting for loan losses	$ 9,438	$ 11,305
Deferred compensation	2,707	2,514
State income tax	524	18
Other	222	135
Total assets	12,891	13,972
Liabilities:		
Differences in depreciation methods	3,469	3,061
Differences in accounting for loans and securities	8,181	9,905
Differences in accounting for loan fees	628	715
Differences in accounting for pensions and other employee benefits	339	861
State income tax		
Net unrealized gain on securities available for sale	2,220	2,123
Other	1,317	1,102
Total liabilities	16,154	17,767
Net deferred tax liability	$ (3,263)	$ (3,795)

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:

	2004	2003
Commitments to extend credit	$ 540,087	$ 481,771
Standby letters of credit	22,024	25,242

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, 2004, First Merchants, Union National, First National and Frances Slocum had no retained net profits available for 2005 dividends to the Corporation without prior regulatory approval. The amount at December 31, 2004, available for 2005 dividends from Madison, First United, Randolph County, Decatur, Lafayette and Commerce National to the Corporation totaled $3,937,000, $238,000, $927,000, $17,000, $2,807,000 and $3,164,000, respectively.

Total stockholders' equity for all subsidiaries at December 31, 2004, was $393,772,000, of which $370,668,000 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,

NOTE 15

REGULATORY CAPITAL continued

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, 2004, 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.

(table dollar amounts in thousands, except share data)

NOTE 15

REGULATORY CAPITAL continued

Actual and required capital amounts and ratios are listed below.

	2004				2003			
	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)(to risk-weighted assets)								
Consolidated	$275,786	11.57%	$190,736	8.00%	$266,488	11.60%	$183,793	8.00%
First Merchants	68,064	11.47	47,474	8.00	67,425	11.08	48,667	8.00
First United	7,703	11.86	5,196	8.00	21,682	10.71	16,198	8.00
First United	7,703	11.86	5,196	8.00	6,679	10.95	4,882	8.00
Randolph County	8,847	11.58	6,111	8.00	8,023	11.20	5,731	8.00
Union County	16,293	12.00	10,858	8.00	15,679	11.37	11,032	8.00
First National	10,198	11.42	7,146	8.00	10,643	12.25	6,951	8.00
Decatur	11,419	11.62	7,862	8.00	11,273	11.84	7,616	8.00
Frances Slocum	17,491	12.93	10,825	8.00	18,173	15.19	9,571	8.00
Lafayette	71,962	11.35	50,701	8.00	70,401	11.32	49,765	8.00
Commerce National	36,829	10.70	27,532	8.00	36,698	12.31	23,851	8.00
Tier I Capital (1)(to risk-weighted assets)								
Consolidated	$228,234	9.57%	$ 95,368	4.00%	$215,995	9.40%	$ 91,896	4.00%
First Merchants	62,310	10.50	23,737	4.00	59,858	9.84	24,334	4.00
Madison	23,671	10.54	8,981	4.00	19,473	9.62	8,099	4.00
First United	7,100	10.93	2,598	4.00	5,985	9.81	2,441	4.00
Randolph County	7,998	10.47	3,055	4.00	7,160	10.00	2,865	4.00
Union County	14,596	10.75	5,429	4.00	14,067	10.20	5,516	4.00
First National	9,322	10.44	3,573	4.00	9,750	11.22	3,476	4.00
Decatur	10,635	10.82	3,931	4.00	10,268	10.79	3,808	4.00
Frances Slocum	15,793	11.67	5,412	4.00	16,669	13.93	4,785	4.00
Lafayette	67,028	10.58	25,350	4.00	64,982	10.45	24,883	4.00
Commerce National	27,648	8.03	13,766	4.00	27,472	9.21	11,926	4.00
Tier I Capital (1) (to average assets)								
Consolidated	$228,234	7.50%	$121,711	4.00%	$215,995	7.38%	$117,110	4.00%
First Merchants	62,310	7.78	32,024	4.00	59,858	7.37	32,475	4.00
Madison	23,671	9.01	10,510	4.00	19,473	8.07	9,658	4.00
First United	7,100	7.68	3,700	4.00	5,985	6.99	3,426	4.00
Randolph County	7,998	8.42	3,799	4.00	7,160	7.89	3,632	4.00
Union County	14,596	7.47	7,814	4.00	14,067	7.30	7,709	4.00
First National	9,322	7.99	4,664	4.00	9,750	8.53	4,571	4.00
Decatur	10,635	7.96	5,342	4.00	10,268	7.61	5,400	4.00
Frances Slocum	15,793	9.58	6,593	4.00	16,669	10.52	6,341	4.00
Lafayette	67,028	7.94	33,747	4.00	64,982	8.02	32,397	4.00
Commerce National	27,648	7.01	15,785	4.00	27,472	7.78	14,133	4.00

(1) as defined by regulatory agencies

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, 2004 and 2003.

	December 31 2004	2003
Change in benefit obligation		
Benefit obligation at beginning of year	$ 45,579	$ 44,718
Service cost	1,920	1,564
Interest cost	2,789	2,617
Actuarial (gain) loss	1,917	(1,667)
Benefits paid	(1,847)	(1,653)
Benefit obligation at end of year	50,358	45,579
Change in plan assets		
Fair value of plan assets at beginning of year	33,940	31,650
Actual return on plan assets	3,080	3,876
Benefits paid	(1,847)	(1,653)
Employer contributions	3,854	67
Fair value of plan assets at end of year	39,027	33,940
Unfunded status	(11,331)	(11,639)
Unrecognized net actuarial loss	10,944	9,656
Unrecognized prior service cost	1,697	1,834
Unrecognized transition asset	(27)	(178)
Prepaid benefit cost (liability)	1,283	(327)
Additional pension liability	(5,416)	(4,924)
Net minimum liability	$ (4,133)	$ (5,251)
Amounts recognized in the balance sheets consist of:		
Prepaid benefit cost (liability)	$ 1,283	$ (327)
Additional pension liability	(5,416)	(4,924)
Intangible asset	1,697	1,834
Deferred taxes	1,487	1,236
Accumulated other comprehensive loss	2,232	1,854
Net amount recognized	$ 1,283	$ (327)

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 has decided to record 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 will be recognized and recorded by the Corporation in the first quarter of 2005.

At December 31, 2004 and 2003, the plans' accumulated benefit obligation totaled $43,161,000 and $39,192,000, respectively. Projected future benefit payments in years ending December 31 are as follows:

2005	$ 1,821
2006	1,985
2007	2,136
2008	2,210
2009	2,380
2010 to 2014	15,042

(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 2005 total $564,000. The Corporation's contributions paid to its defined-benefit pension plans in 2004 totaled $3,854,000, of which $2,108,000 was required and $1,746,000 was discretionary.

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.

At September 30, 2003 the plans' assets were allocated 67 percent to equity securities, 25 percent to debt securities, and 8 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 0 to 15 percent, respectively.

	2004	2003	2002(1)
Pension cost includes the following components:			
Service cost-benefits earned during the year	$ 1,920	$ 1,564	$ 1,770
Interest cost on projected benefit obligation	2,789	2,617	2,202
Actual (return) loss on plan assets	(3,080)	(3,876)	2,654
Net amortization and deferral	614	1,617	(5,674)
Total pension cost	$ 2,243	$ 1,922	$ 952

(1) Lafayette components are included beginning as of April 1, 2002.

	2004	2003	2002
Assumptions used in the accounting as of December 31 were:			
Discount rate	6.00%	6.25%	6.75%
Rate of increase in compensation	4.00%	4.00%	4.00%
Expected long-term rate of return on assets	8.00%	8.00%	8.14%

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, 2004 and 2003, 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, 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. At December 31, 2003, the maturities of the plans' debt securities ranged from 59 days to 5.6 years, with a weighted average maturity of 2.5 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 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 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 six 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, 2004, 2003 and 2002.

Year Ended December 31,	2004		2003		2002	
OPTIONS	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding, beginning of year	951,509	$ 20.71	842,583	$ 19.89	770,817	$ 17.91
Granted	185,170	25.60	190,714	23.46	166,760	26.85
Exercised	(95,899)	15.48	(69,672)	16.93	(71,538)	12.74
Cancelled	(21,137)	25.36	(12,116)	22.27	(23,456)	22.18
Outstanding, end of year	1,019,643	$ 22.00	951,509	$ 20.71	842,583	$ 19.89
Options exercisable at year end	693,560		653,040		569,758	
Weighted-average fair value of options granted during the year		$ 6.98		$ 5.99		$ 7.47

As of December 31, 2004, other information by exercise price range for options 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
$ 12.43 - $19.73	417,854	$17.77	4.1 years	417,484	$17.77
20.46 - 25.60	449,631	24.28	7.8 years	123,963	23.29
26.29 - 26.93	152,158	26.87	7.2 years	152,113	26.87
	1,019,643	$22.00	6.2 years	693,560	$20.75

(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:

	2004	2003	2002
Risk-free interest rates........	4.57%	3.55%	4.78%
Dividend yields.................	3.64%	3.65%	3.63%
Volatility factors of expected market price common stock...	30.89%	31.29%	31.02%
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 1999 Employee Stock Purchase Plan enabled eligible employees to purchase the Corporation's common stock. A total of 289,406 shares of the Corporation's common stock were initially reserved for issuance pursuant to the plan. The price of the stock to be paid by the employees was determined by the Corporation's compensation committee, but was not 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 were made annually and paid through advance payroll deductions of up to 20 percent of eligible compensation. Participants under the plan purchased 45,267 shares in 2004 at $19.94 per share. The fair value on the purchase date was $25.60. The 1999 Employee Stock Purchase Plan expired after the July 1, 2004 purchase of shares.

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 2004, 2003 and 2002, respectively: dividend yield of 3.64, 3.65, and 3.63 percent; an expected life of one year for all years; expected volatility of 30.89, 31.29, and 31.02 percent; and risk-free interest rates of 4.57, 3.55 and 4.78 percent. The fair value of those purchase rights granted in 2004, 2003 and 2002 was $6.38, $4.81 and $10.14 respectively.

The First Merchants Corporation 2004 Employee Stock Purchase Plan was approved by the Corporation's stockholders at their annual meeting on April 22, 2004. The effective date of the Plan was July 1, 2004. Its purpose is to provide 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 are reserved for issuance

(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

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, 2004, $904,000 has been withheld from compensation, plus interest, toward the purchase of shares after June 30, 2005, the end of the annual offering period.

The Corporation maintains retirement savings 401(k) plans in which substantially all employees may participate. The Corporation matches employees' contributions at the rate of 25 to 50 percent for the first 5 to 6 percent of base salary contributed by participants. The Corporations' expense for the plans was $660,000 for 2004, $600,000 for 2003, and $315,000 for 2002.

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 $ 3,004,000 and $2,511,000 at December 31, 2004 and 2003. Benefit plan expense was $615,000, $485,000 and $436,000 for 2004, 2003 and 2002.

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 $1,022,000 and $898,000 at December 31, 2004 and 2003. Post-retirement plan expense totaled $202,000, $240,000 and $19,000 for the years ending December 31, 2004, 2003 and 2002.

NOTE 17

NET INCOME PER SHARE

Year Ended December 31,	2004			2003			2002		
	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	$29,411	18,540,451	$ 1.59	$27,571	18,233,855	$ 1.51	$27,836	16,364,788	$ 1.70
Effect of dilutive stock options..		126,826			137,575			137,703	
Diluted net income per share:									
Net income available to common stockholders and assumed conversions	$29,411	18,667,277	$ 1.58	$27,571	18,371,430	$ 1.50	$27,836	16,502,491	$ 1.69

Options to purchase 320,661, 233,658 and 162,207 shares of common stock with weighted average exercise prices of $24.66, $24.01 and $25.94 at December 31, 2004, 2003 and 2002 were excluded from the computation of diluted net income per

NOTE 17

NET INCOME PER SHARE continued

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

(table dollar amounts in thousands, except share data)

NOTE 18

FAIR VALUES OF FINANCIAL INSTRUMENTS continued

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:

	2004		2003	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets at December 31:				
Cash and cash equivalents	$ 69,960	$ 69,960	$ 109,527	$ 109,527
Interest-bearing time deposits	9,343	9,343	8,141	8,141
Investment securities available for sale	416,177	416,177	348,860	348,860
Investment securities held to maturity	5,358	5,520	7,937	8,326
Mortgage loans held for sale	3,367	3,367	3,043	3,043
Loans	2,405,503	2,415,924	2,328,010	2,383,666
FRB and FHLB stock	22,858	22,858	15,502	15,502
Interest receivable	17,318	17,318	16,840	16,840
Cash value of life insurance	42,061	42,061	37,927	37,927
Liabilities at December 31:				
Deposits	2,408,150	2,404,595	2,362,101	2,378,669
Borrowings:				
Federal funds purchased	32,550	32,550		
Securities sold under repurchase agreements	87,472	85,136	71,095	71,139
FHLB advances	223,663	234,247	212,779	239,251
Subordinated debentures, revolving credit lines and term loans	97,206	105,139	97,782	103,313
Other borrowed funds			1,514	1,514
Interest payable	4,411	4,411	4,680	4,680

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, 2004	2003
Assets		
Cash	$ 987	$ 3,235
Investment securities available for sale	3,500	3,500
Investment in subsidiaries	401,721	391,241
Goodwill	448	448
Other assets	10,039	10,500
Total assets	$416,695	$408,924
Liabilities		
Borrowings	$ 97,206	$ 99,550
Other liabilities	4,886	5,409
Total liabilities	102,092	104,959
Stockholders' equity	314,603	303,965
Total liabilities and stockholders' equity	$416,695	$408,924

(table dollar amounts in thousands, except share data)

NOTE 19

CONDENSED FINANCIAL INFORMATION (parent company only) continued

CONDENSED STATEMENTS OF INCOME

	December 31, 2004	2003	2002
Income			
Dividends from subsidiaries	$ 28,983	$ 45,445	$ 22,720
Administrative services fees from subsidiaries	13,767	10,849	6,580
Other income	375	472	535
Total income	43,125	56,766	29,835
Expenses			
Amortization of core deposit intangibles and fair value adjustments	11	26	28
Interest expense	6,785	6,463	3,858
Salaries and employee benefits	11,240	9,531	7,641
Net occupancy expenses	1,481	1,869	1,527
Equipment expenses	2,918	1,955	1,447
Telephone expenses	1,383	1,571	1,543
Other expenses	3,228	3,730	2,767
Total expenses	27,046	25,145	18,811
Income before income tax benefit and equity in undistributed income of subsidiaries	16,079	31,621	11,024
Income tax benefit	4,557	5,577	4,336
Income before equity in undistributed income of subsidiaries	20,636	37,198	15,360
Equity in undistributed (distributions in excess of) income of subsidiaries	8,775	(9,627)	12,476
Net Income	$ 29,411	$ 27,571	$ 27,836

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2004	2003	2002
Operating activities:			
Net income	$ 29,411	$ 27,571	$ 27,836
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	11	26	28
Distributions in excess of (equity in undistributed) income of subsidiaries	(8,775)	(9,627)	(12,476)
Net change in:			
Other assets	(535)	2,406	(6,892)
Other liabilities	461	(6)	4,430
Net cash provided by operating activities	20,573	20,370	12,926
Investing activities - Investment in subsidiaries	(2,289)	(25,858)	(51,135)
Net cash used by investing activities	(2,289)	(25,858)	(51,135)
Financing activities:			
Cash dividends	(17,048)	(16,557)	(13,995)
Borrowings	7,251	47,594	55,832
Repayment of borrowings	(9,594)	(29,550)	
Stock issued under employee benefit plans	903	819	658
Stock issued under dividend reinvestment and stock purchase plan	1,278	1,339	951
Stock options exercised	1,404	1,191	494
Stock redeemed	(4,726)	(489)	(4,333)
Cash paid in lieu of issuing fractional shares		(28)	(35)
Net cash provided (used) by financing activities	(20,532)	4,319	39,572
Net change in cash	(2,248)	(1,169)	1,363
Cash, beginning of year	3,235	4,404	3,041
Cash, end of year	$ 987	$ 3,235	$ 4,404

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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, 2004 and 2003:

QUARTER ENDED	INTEREST INCOME	INTEREST EXPENSE	NET INTEREST INCOME	PROVISION FOR LOAN LOSSES	NET INCOME	AVERAGE SHARES OUTSTANDING BASIC	AVERAGE SHARES OUTSTANDING DILUTED	NET INCOME PER SHARE BASIC	NET INCOME PER SHARE DILUTED
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
2003:									
March	$ 38,981	$ 12,971	$ 26,010	$ 4,601	$ 5,658	17,565,405	17,675,633	$ .32	$ .32
June	39,554	13,599	25,955	2,123	8,745	18,392,925	18,519,155	.48	.48
September.........	38,959	13,085	25,874	1,706	7,349	18,466,678	18,622,306	.40	.39
December..........	38,036	12,733	25,303	1,047	5,819	18,497,612	18,666,079	.31	.31
	$ 155,530	$ 52,388	$ 103,142	$ 9,477	$ 27,571	18,233,855	18,371,400	$ 1.51	$ 1.50

NOTE 21

ACCOUNTING MATTERS

On December 12, 2003, the American Institute of Certified Public Accountants issued Statement of Position No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3). SOP 03-3 requires acquired loans with poor credit quality to be recorded at fair value and prohibits carrying over or creation of valuation allowances in the initial accounting for the loans. SOP 03-3 also limits the yield that may be accreted to income. SOP 03-3 applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a business combination. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 31, 2004. SOP 03-3 is not expected to have a material impact on the Corporation's results of operations or financial condition.

In March 2004, the Emerging Issues Task Force (EITF) finalized and issued EITF 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-1). EITF 03-1 provides recognition and measurement guidance regarding when impairments of equity and debt securities are considered other-than-temporary, requiring a charge to earnings, and also requires additional annual disclosures for investments in unrealized loss positions. The additional annual disclosure requirements were previously issued by the EITF in November 2003 and were effective for the Corporation for the year ended December 31, 2003. In September 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) EITF 03-1-1, which delays the recognition and measurement provisions of EITF 03-1, pending the issuance of further implementation guidance. We are currently evaluating the effect of the recognition and measurement provisions of EITF 03-1. While our analysis is pending the FASB's revisions to EITF 03-1, we currently believe the adoption of EITF 03-1 will not result in a material impact on the Corporation's results of operations or financial condition.

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, ACCOUNTING MATTERS continued

and generally requires that such transactions be accounted for using a fair value-based method. SFAS 123R will be effective for the Corporation beginning July 1, 2005. SFAS123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The cumulative effect of initially applying this Statement, if any, is recognized as of the required effective date.

As of the required effective date, the Corporation may elect to apply SFAS 123R using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS 123 for either recognition or pro forma disclosures. For periods before the required effective date, the Corporation may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by SFAS 123.

The Corporation will first report compensation cost under SFAS 123R in the third quarter of 2005. For liability-classified awards, the Corporation will initially measure the cost of employee services received in exchange for an award based on its current fair value; the fair value will be remeasured subsequently at each reporting date through the settlement date, and changes in fair value will be recognized as compensation cost. For equity-classified awards, the grant date fair value will be recognized in earnings over the requisite service period. We are currently evaluating the effect of the recognition and measurement provisions of SFAS 123R, but we currently believe the adoption of SFAS 123R will not result in a material impact on the Corporation's results of operations or financial condition.

ANNUAL MEETING, STOCK PRICE AND DIVIDEND INFORMATION

The 2005 Annual Meeting of Stockholders
of First Merchants Corporation
will be held...

Thursday, April 14, 2005 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)	
	2004	2003	2004	2003	2004	2003
First Quarter	$ 26.33	$ 23.15	$ 23.50	$ 21.29	$ .23	$ .22
Second Quarter	25.88	24.56	22.20	21.72	.23	.22
Third Quarter	25.77	27.25	22.96	23.47	.23	.23
Fourth Quarter	29.19	27.22	24.15	25.00	.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 2004 and 2003. 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, 2005, the number of shares outstanding was 18,578,882. There were 2,975 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

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 the General Counsel of 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
Senior 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.
First United 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 Retirement Services, Inc	Ohio
CNBC Statutory Trust I	Connecticut

EXHIBIT-23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

EXHIBIT 23 - CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in this Annual Report on Form 10-K of First Merchants Corporation (the "Corporation") and the Registration Statements on Form S-8, File Numbers 333-116074, 333-111374, 333-50484, 333-80119 and 333-80117 of our reports dated January 28, 2005, with respect to the consolidated financial statements of the Corporation, the Corporation's management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of the Corporation, all as included in this Annual Report on Form 10-K of the Corporation.

BKD, LLP

Indianapolis, Indiana
March 16, 2005

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 8, 2005

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

/s/Mark K. Hardwick
Mark K. Hardwick Sr. Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

/s/ Stefan S. Anderson
Stefan S. Anderson Director

/s/ Roger M. Arwood
Roger M. Arwood Director

/s/ James F. Ault
James F. Ault Director

/s/ Richard A. Boehning
Richard A. Boehning Director

Frank A. Bracken Director

Blaine M. Brownell 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 Gora
Dr. Jo Ann Gora Director

/s/ Barry J. Hudson
Barry J. Hudson Director

Robert T. Jeffares Director

/s/ Norman M. Johnson
Norman M. Johnson Director

/s/ Thomas D. McAuliffe
Thomas D. McAuliffe Director

/s/ Charles E. Schalliol
Charles E. Schalliol Director

Robert M. Smitson Director

/s/ Jean L. Wojtowicz
Jean L. Wojtowicz Director

EXHIBIT-31.1

FIRST MERCHANTS CORPORATION

FORM 10-K
CERTIFICATIONS 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, 2005

/s/Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

EXHIBIT-31.2

FIRST MERCHANTS CORPORATION

FORM 10-K
CERTIFICATIONS 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, 2005

/s/Mark K. Hardwick

Mark K. Hardwick
Senior Vice President and
Chief Financial Officer
(Principal Financial and Chief
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, 2004 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, 2005 by /s/ Michael L. Cox

Michael L. Cox
President and Chief 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, 2004 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, 2005 by /s/ Mark K. Hardwick

Mark K. Hardwick
Senior Vice President and
Chief Financial Officer
(Principal Financial and Chief
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, 2004, will be filed as an amendment to the 2004 Annual Report on Form 10-K.