

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

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant  |X|

Filed by a Party other than the Registrant  |\_|

Check the appropriate box:

|\_| Preliminary Proxy Statement

|\_| Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

|X| Definitive Proxy Statement

|\_| Definitive Additional Materials

|\_| Soliciting Material Pursuant to ss. 240.14a-12

FIRST MERCHANTS CORPORATION

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(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)  
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(NAME OF PERSON(S) FILING PROXY STATEMENT IF OTHER THAN THE REGISTRANT)  
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Payment of Filing Fee (Check the appropriate box):

|X| No fee required

|\_| Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1. Title of each class of securities to which transaction applies:

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2. Aggregate number of securities to which transaction applies:

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3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1. Amount Previously Paid:

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2. Form, Schedule or Registration Statement No.:

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3. Filing Party:

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4. Date Filed:

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FIRST MERCHANTS CORPORATION  
200 EAST JACKSON STREET  
MUNCIE, INDIANA 47305

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD APRIL 29, 2008

The annual meeting of the shareholders of First Merchants Corporation will be held at the Horizon Convention Center, 401 South High Street, Muncie, Indiana 47305, on Tuesday, April 29, 2008, at 3:30 p.m., Eastern Daylight Time, for the following purposes:

- (1) To elect five directors, four to hold office for terms of three years and one to hold office for a term of one year; in each case, the directors will hold office until their successors are duly elected and qualified.
- (2) To act on a proposal to approve the First Merchants Corporation Equity Compensation Plan for Non-Employee Directors.
- (3) To ratify the appointment of the firm of BKD, LLP as the independent auditor for 2008.
- (4) To transact such other business as may properly come before the meeting.

Only those shareholders of record at the close of business on February 15, 2008 shall be entitled to notice of and to vote at the meeting.

By Order of the Board of Directors

Cynthia G. Holaday  
Secretary

Muncie, Indiana  
March 19, 2008

YOUR VOTE IS IMPORTANT!

YOU ARE URGED TO SUBMIT YOUR PROXY VIA THE TELEPHONE OR INTERNET, OR TO SIGN, DATE AND RETURN YOUR PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE, AS SOON AS POSSIBLE SO THAT YOUR SHARES CAN BE VOTED AT THE MEETING IN ACCORDANCE WITH YOUR INSTRUCTIONS.

March 15, 2008

March 19, 2008

FIRST MERCHANTS CORPORATION  
PROXY STATEMENT FOR  
ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD APRIL 29, 2008

To the shareholders of First Merchants Corporation:

This proxy statement has been made available to you on the Internet or has been sent to you via mail or email in connection with the solicitation on behalf of

the Board of Directors (the "Board") of First Merchants Corporation ("First Merchants") of proxies to be voted at the annual meeting of First Merchants' shareholders to be held April 29, 2008, for the purposes stated in the accompanying notice of the meeting. If you received a paper or electronic copy, the proxy materials also include a proxy card which can be used for voting your shares. The distribution of these proxy materials is expected to commence on or about March 19, 2008.

This year we are pleased to take advantage of the new Securities and Exchange Commission ("SEC") rule that allows companies to furnish their proxy materials over the Internet. As a result, we are mailing many of our shareholders a Notice Regarding the Availability of Proxy Materials instead of a paper copy of the proxy materials. The Notice contains instructions on how to access those documents over the Internet. The Notice also contains instructions on how shareholders may receive a paper or electronic copy of the proxy materials, including a proxy statement, annual report and a proxy card. All shareholders who do not receive a Notice will receive a paper copy of the proxy materials by mail. We believe this new rule will allow us to provide our shareholders with the information they need, while lowering the costs of delivery and reducing the environmental impact of our annual meeting.

#### VOTING

Each share of First Merchants common stock issued and outstanding as of the close of business on February 15, 2008, the record date for the annual meeting, is entitled to be voted on all items being voted upon at the meeting. As of the close of business on February 15, 2008, there were 18,036,739 shares outstanding and entitled to vote.

You may vote shares held directly in your name as shareholder of record in person at the annual meeting. Even if you plan to attend the annual meeting, we recommend that you also vote by proxy as described below so that your vote will be counted if you later decide not to attend the meeting.

Whether you hold shares directly as the shareholder of record or through a broker, trustee or other nominee as the beneficial owner, you may direct how your shares are voted without attending the annual meeting. There are three ways to vote by proxy:

- o By Internet - Shareholders who received a Notice Regarding the Availability of Proxy Materials may submit proxies over the Internet by following the instructions on the Notice. Shareholders who received a paper or electronic copy of a proxy card may submit proxies over the Internet by following the instructions on the proxy card.
- o By Telephone - Shareholders who live in the United States or Canada may submit proxies by telephone by calling toll-free 1-800-690-6903 on a touch-tone telephone and following the instructions. Shareholders who received a Notice Regarding the Availability of Proxy Materials should have their Notice in hand when calling, and shareholders who received a paper or electronic copy of a proxy card should have the proxy card in hand when calling.

#### Page 1

- o By Mail - Shareholders who received a paper or electronic copy of a proxy card may submit proxies by mail by completing, signing and dating their proxy card and mailing it in the postage-paid envelope we have provided or return it to First Merchants Corporation, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

After submitting a proxy, you have the right to revoke it any time before it is exercised by giving written notice of revocation to the Secretary received prior to the annual shareholders' meeting, by voting again via Internet, telephone or mail, or by voting in person at the meeting. Your shares will be voted in accordance with your specific instructions given when submitting your proxies. In the absence of specific instructions to the contrary, proxies will be voted "for" election to the Board of all nominees listed in Item 1 of the proxy, "for" the proposal to approve the First Merchants Corporation Equity Compensation Plan for Non-Employee Directors, and "for" ratification of the appointment of the firm of BKD, LLP as First Merchants' independent auditor for 2008. If any director-nominee named in this proxy statement becomes unable or declines to serve (an event which the Board does not anticipate), the persons named as proxies will have discretionary authority to vote for a substitute nominee named by the Board, if the Board determines to fill such nominee's position.

Each share of First Merchants common stock is entitled to one vote. Directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. Shareholders do not have a right to cumulate their votes for directors. The affirmative vote of a majority of the shares present and voting at the meeting in person or by proxy

is required for approval of all items submitted to the shareholders for their consideration other than the election of directors. Abstentions will be counted for the purpose of determining whether a quorum is present but for no other purpose. Broker non-votes will not be counted. The Secretary will count the votes and announce the preliminary results of the voting at the annual meeting. The final results will be published in First Merchants' quarterly report on Form 10-Q for the second quarter of 2008.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

To the best of our knowledge, the following table shows the only beneficial owners of more than 5% of the outstanding common stock of First Merchants as of February 15, 2008.

Name and Address	Amount and Nature	Percent of Beneficial Ownership	Class
Dimensional Fund Advisors LP	1,568,780	8.70%	1299 Ocean Avenue Santa Monica, CA (90401)
First Merchants Trust Company, N. A. (941,100)		5.22%	200 East Jackson Street Muncie, IN 47305

Based on a Schedule 13G filing with the SEC, Dimensional Fund Advisors LP (formerly, Dimensional Fund Advisors Inc.) ("Dimensional"), an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Advisors Act of 1940 and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the "Funds." In its role as investment advisor or manager, Dimensional possesses investment and/or voting power over the shares of First Merchants common stock owned by the Funds and may be deemed to be the beneficial owner of these shares under rules of the SEC. However, all of these shares are owned by the Funds, and Dimensional disclaims beneficial ownership of such shares for any other purpose. Page 2 First Merchants Trust Company, National Association ("FMTC"), is a wholly owned subsidiary of First Merchants. It holds shares of First Merchants common stock in various fiduciary capacities, in regular, nominee or street name accounts. Beneficial ownership of shares so held is disclaimed by First Merchants. It is FMTC's practice, when holding shares as sole trustee or sole executor, to vote the shares; but, when it holds shares as co-trustee or co-executor, FMTC obtains approval from the co-fiduciary prior to voting.

Security Ownership of Directors and Executive Officers

The following table lists the amount and percent of First Merchants common stock beneficially owned on February 15, 2008 by directors (including directors who are retiring as of the 2008 annual meeting of shareholders), director-nominees, the Chief Executive Officer, the Chief Financial Officer, the three other most highly compensated executive officers, and by the directors and all of First Merchants' executive officers as a group. Unless otherwise indicated, the beneficial owner has sole voting and investment power. The information provided in the table is based on First Merchants' records and information filed with the SEC and provided to First Merchants.

The number of shares beneficially owned by each person is determined under rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under those rules, beneficial ownership includes shares which a person has the right to acquire beneficial ownership of on or before April 15, 2008 (60 days after February 15, 2008) by exercising stock options ("Vested Options") awarded to participants under First Merchants' Long-term Equity Incentive Plan. It also includes shares of restricted stock ("Restricted Shares") awarded to participants under that Plan which are still subject to the restrictions.

Amount and Nature	Beneficial Owner	Percent of Beneficial Ownership	Class
Richard A. Boehning 26,493	* Thomas B. Clark		
16,753	* Michael L. Cox 176,025		* Roderick English 3,471
	* Jo Ann M. Gora 3,471		* William L. Hoy 10,863
458,016	* Michael C. Rechin 29,257	2.50%	* Barry J. Hudson
	* Terry L. Walker		* Charles E. Schalliol 7,471
18,844	* Jean L. Wojtowicz 4,628		* Jami L. Bradshaw 4,707
	* Robert R. Connors 31,917		* Mark K. Hardwick 43,353
4,350	* Directors and Executive Officers as a Group (18 persons)		
867,240	* 4.74% * Percentage beneficially owned is less than 1% of the outstanding shares. Includes 10,415 shares held jointly with his spouse, Phyllis Boehning, 5,586 shares held in trust for family members for which Mr. Boehning, as trustee, has voting and investment power, and 6,942 shares that he has the right to acquire by exercising Vested Options. Includes 11,454 shares that he has the right to acquire by exercising Vested Options. Page 3 Includes 52,754 shares held jointly with his spouse, Sharon Cox, and 115,521 shares that he has the right to acquire by exercising Vested Options. Includes 3,471 shares that he has the right to acquire by exercising Vested Options. Includes 3,471 shares that she has the right to acquire by exercising Vested Options. Includes 917 shares that he holds as custodian for his daughter. Includes 327,756 shares owned by Mutual Security, Inc., 10,024 shares held jointly with his spouse, Elizabeth Hudson, 43,521 shares held by his spouse, 13,626 shares held by his spouse as custodian for his children, and 15,321 shares that he has the right		

to acquire by exercising Vested Options. Includes 5,667 Restricted Shares, and 18,000 shares that he has the right to acquire by exercising Vested Options. Includes 3,471 shares that he has the right to acquire by exercising Vested Options. Includes 10,611 shares held jointly with his spouse, Cheryl L. Walker, 1,076 shares held by his spouse, 1,157 shares that he has the right to acquire by exercising Vested Options. Includes 4,628 shares that she has the right to acquire by exercising Vested Options. Includes 1,000 Restricted Shares, and 2,220 shares that she has the right to acquire by exercising Vested Options. Includes 722 shares held jointly with his spouse, Ann Connors, 3,000 Restricted Shares, and 26,556 shares that he has the right to acquire by exercising Vested Options. Includes 401 shares held by his spouse, Catherine Hardwick, 4,400 Restricted Shares, and 34,973 shares that he has the right to acquire by exercising Vested Options. Includes 193 shares held jointly with his spouse, Sandra Spade, and 2,400 Restricted Shares. Includes 23,667 Restricted Shares, and 266,242 shares that First Merchants' directors and executive officers have the right to acquire by exercising Vested Options.

#### INFORMATION REGARDING DIRECTORS

##### VOTING ITEM 1 - ELECTION OF DIRECTORS

First Merchants' Bylaws allow the Board to fix the number of directors by resolution. The number of directors is currently fixed at eleven. The Board is divided into three classes serving staggered three-year terms or until their successors are elected and qualified. Directors for each class are elected at the annual meeting of shareholders held in the year in which the term for their class expires; except that directors filling vacancies caused by resignation, death or other incapacity, or an increase in the number of directors, are elected by majority vote of the Board until the next annual meeting of shareholders.

Five directors will be elected at the annual meeting. The five persons who have been nominated for election to the Board are all currently members of the Board. The four Class II directors are completing three-year terms and have been nominated to serve three-year terms expiring as of the 2011 annual meeting of shareholders. William L. Hoy was elected by the Board on October 23, 2007 to fill a vacancy in Class III caused by an increase in the number of directors. He has been nominated to serve a one-year term expiring as of the 2009 annual meeting of shareholders. There are no family relationships among First Merchants' executive officers and directors.

Page 4

The following persons have been nominated for election to the Board:

Name and Age  
Present  
Occupation  
Director  
Since Class  
II (Terms  
expire 2011):  
Thomas B.  
Clark Retired  
Chairman of  
the Board of  
Directors,  
President and  
1989 age 62  
Chief  
Executive  
Officer,  
Jarden  
Corporation,  
a provider of  
niche  
consumer  
products for  
the home.  
Roderick  
English  
President and  
Chief  
Executive  
Officer, The  
James Monroe  
2005 age 56  
Group, LLC, a  
provider of  
business  
management  
and  
consulting  
services,  
since 2006.

Mr. English  
was Senior  
Vice  
President of  
Human  
Resources and  
Remy  
International,  
Inc.  
(formerly,  
Delco Remy  
International,  
Inc.), a  
manufacturer  
of electrical  
and  
powertrain  
products for  
autos, trucks  
and other  
vehicles from  
1994 to 2006.

Jo Ann M.  
Gora  
President,  
Ball State  
University,  
since 2004.

Dr. Gora 2004  
age 62 served  
as Chancellor  
of the  
University of  
Massachusetts  
at Boston  
from 2001 to  
2004. She was  
Provost and  
Vice

President for  
Academic  
Affairs at  
Old Dominion  
University  
from 1992 to  
2001. Jean L.  
Wojtowicz  
President and  
Chief

Executive  
Officer,  
Cambridge  
Capital 2004  
age 50  
Management  
Corp., a  
manager of  
non-  
traditional  
sources of  
financing,  
since 1983.

Ms. Wojtowicz  
is also a  
director of  
Vectren  
Corporation  
and a trustee  
of Windrose  
Medical  
Properties  
Trust, which  
are both  
listed on the  
New York  
Stock  
Exchange.

Class III  
(Term expires  
2009):  
William L.

Hoy Chief  
Executive  
Officer of  
The Columbus  
Sign Company,  
a 2007 age 59  
custom sign  
and graphic  
fabricator,  
since 1990,  
and Vice  
President and  
Treasurer of  
Innocom  
Corporation,  
an  
environmental  
graphic  
design and  
custom  
display  
company,  
since 1992.

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ELECTION OF EACH NOMINEE FOR DIRECTOR NAMED ABOVE.

The First Merchants directors whose terms are not expiring as of the 2008 annual meeting of shareholders are listed below. They will continue to serve as directors for the remainder of their terms or until otherwise provided in First Merchants' Bylaws. Information regarding each of the continuing directors is provided below.

Page 5

#### Continuing Directors

The following persons will continue to serve as directors:

Director Name and Age Present Occupation Since Class I (Terms expire 2010):
Michael L. Cox Retired President and Chief Executive Officer of First 1984 age 63 Merchants. Mr. Cox is a nonemployee consultant to First Merchants, under the agreement described on page 24 of this proxy statement, under "Termination of Employment and Change of Control Arrangements." Charles E. Schalliol Of counsel, Baker & Daniels LLP law firm, since 2007. Mr. 2004 age 60 Schalliol was Director, Indiana State Office of Management and Budget, from

2005 to 2007,  
President and  
Chief Executive  
Officer of  
BioCrossroads,  
an economic  
development  
organization  
focused on life  
sciences  
companies, from  
2003 to 2005,  
Executive  
Director,  
Corporate  
Finance, Eli  
Lilly and  
Company, a  
pharmaceuticals  
company, from  
1996 to 2003,  
and Founder and  
Managing  
Director of  
Lilly Venture  
Funds from 1999  
to 2003. Terry  
L. Walker  
Chairman of the  
Board of  
Directors,  
President and  
Chief 2006 age  
61 Executive  
Officer, Muncie  
Power Products,  
Inc., a  
manufacturer  
and distributor  
of power take-  
offs and  
hydraulic  
components for  
the truck  
equipment  
industry, since  
2005. Mr.  
Walker was  
Muncie Power's  
President and  
Chief Operating  
Officer from  
2000 to 2005.  
Class III  
(Terms expire  
2009): Barry J.  
Hudson Retired  
Chairman of the  
Board of  
Directors,  
President and  
1999 age 68  
Chief Executive  
Officer of  
First National  
Bank of  
Portland, a  
wholly owned  
subsidiary of  
First Merchants  
that was merged  
with First  
Merchants Bank,  
National  
Association,  
another wholly  
owned  
subsidiary of  
First  
Merchants, in  
2007. Michael



C. Rechin  
President and  
Chief Executive  
Officer of  
First Merchants  
2005 age 49  
since 2007, and  
Executive Vice  
President and  
Chief Operating  
Officer of  
First Merchants  
from 2005 to  
2007. Mr.

Rechin was  
Executive Vice  
President of  
National City  
Bank of Indiana  
from 1995 to  
2005. Under an  
Agreement  
between Mr. Cox  
and the Board,  
which is  
described on  
page 24 of this  
proxy statement  
under  
"Termination of  
Employment and  
Change of  
Control  
Arrangements,"  
Mr. Cox will  
continue to  
serve as a  
director until  
the 2009 annual  
meeting of  
shareholders.

Page 6

#### Retiring Director

Richard A. Boehning will retire as a director of First Merchants on April 29, 2008, the date of the 2008 annual meeting of shareholders.

#### Meetings of the Board

The Board held 5 meetings during 2007. All of the directors attended at least 75% of the total number of meetings of the Board and the committees on which they served.

#### Directors' Attendance at Annual Meeting of Shareholders

First Merchants' directors are encouraged to attend the annual meeting of shareholders. At the 2007 annual meeting, all 12 directors were in attendance.

#### Board Independence

The Board has determined that each of First Merchants' directors and director-nominees is an "independent director," as defined in the listing standards of the Nasdaq Stock Market, Inc. ("NASDAQ"), except for Michael L. Cox, First Merchants' former President and CEO, Michael C. Rechin, First Merchants' current President and CEO, and Barry J. Hudson, the former Chairman of the Board of Directors, President and CEO of First National Bank of Portland, a wholly owned subsidiary of First Merchants that was merged with First Merchants Bank, National Association, another wholly owned subsidiary of First Merchants, in 2007.

All of the members of the Nominating and Governance Committee, the Compensation and Human Resources Committee, and the Audit Committee are "independent directors," as defined in the NASDAQ listing standards.

#### Communications with the Board

Shareholders may communicate with the Board by e-mail at [bod@firstmerchants.com](mailto:bod@firstmerchants.com). All such e-mails will be automatically forwarded to the Chairman of the

Nominating and Governance Committee, Thomas B. Clark, who will arrange for such communications to be relayed to the other directors.

## COMMITTEES OF THE BOARD

### Standing Committees/Committee Charters

The Board's standing committees are the Audit Committee, the Nominating and Governance Committee, and the Compensation and Human Resources Committee. Each has a charter, which is included among the documents under the "Corporate Governance Disclosures" link on First Merchants' website, [www.firstmerchants.com](http://www.firstmerchants.com). The following information is provided regarding the composition, functions and number of meetings held by these committees in 2007:

#### Audit Committee

The Audit Committee is composed of directors Jean L. Wojtowicz (Chairman), Thomas B. Clark, Jo Ann M. Gora and Terry L. Walker. The Committee met 9 times during 2007. Its responsibilities include overseeing First Merchants' accounting and financial reporting principles and policies and its internal accounting and disclosure controls and procedures, overseeing and evaluating the effectiveness of First Merchants' internal audit function, reviewing First Merchants' procedures to ensure that quarterly and annual financial statements are accurate and complete, including reviewing the certifications of these financial statements by First Merchants' Chief Executive Officer and its Chief Financial Officer, recommending the appointment of the external auditor for approval by the Board and ratification by the shareholders, approving the external auditor's compensation and evaluating its independence, reviewing and approving the annual audit plans of the internal and external auditors, reviewing and discussing with

Page 7

management and the external auditor First Merchants' audited financial statements and, based on this review, making a recommendation to the Board on inclusion of these financial statements in First Merchants' annual report on Form 10-K. In accordance with Section 407 of the Sarbanes-Oxley Act, First Merchants has identified Ms. Wojtowicz and Mr. Clark as "Audit Committee financial experts." They are both "independent," as that term is used in the NASDAQ listing standards.

#### Audit Committee Report Concerning Audited Financial Statements

The Audit Committee has reviewed and discussed the audited financial statements of First Merchants for 2007 with First Merchants' management, and it has discussed with BKD, LLP, First Merchants' independent auditor for 2007, the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T. The Committee has also received the written disclosures and the letter from BKD, LLP required by Independence Standards Board Standard No. 1 (Independent Discussions with Audit Committees), as adopted by the PCAOB in Rule 3600T, and has discussed with BKD, LLP its independence. Based on these reviews and discussions, the Audit Committee recommended to the Board that the audited financial statements of First Merchants be included in First Merchants' Annual Report on Form 10-K for the 2007 fiscal year for filing with the SEC.

The above report is submitted by:

#### FIRST MERCHANTS CORPORATION AUDIT COMMITTEE

Jean L. Wojtowicz, Chairman  
Thomas B. Clark  
Jo Ann M. Gora  
Terry L. Walker

#### Nominating and Governance Committee

The Nominating and Governance Committee is composed of directors Thomas B. Clark (Chairman), Richard A. Boehning, Charles E. Schalliol and Jean L. Wojtowicz. The Committee met 5 times during 2007. It is charged with ensuring the continued effectiveness and independence of the Board. The Committee is responsible for reviewing the credentials of persons suggested as prospective directors, nominating persons to serve as directors and as officers of the Board, including the slate of directors to be elected each year at the annual meeting of shareholders, making recommendations concerning the size and composition of the Board, as well as criteria for Board membership, making recommendations concerning the Board's committee structure and makeup, providing for continuing education of the directors and self-assessment of the Board's effectiveness, and overseeing First Merchants' Code of Business Conduct and its Code of Ethics for Senior Financial Officers of First Merchants. The Code of Business Conduct and the Code of Ethics for Senior Financial Officers are included among the documents under the "Corporate Governance Disclosures" link on First Merchants'

In nominating persons to serve as directors, the Nominating and Governance Committee considers the person's ethical character, reputation, relevant expertise and experience, accomplishments, leadership skills, demonstrated business judgment, contribution to Board diversity, "independence" (as defined in the NASDAQ listing standards) if a non-employee director, residency in First Merchants' market area, ability and willingness to devote sufficient time to director responsibilities, and willingness to maintain a meaningful ownership interest in First Merchants and assist First Merchants in developing new business. For incumbent directors whose terms are expiring, the Committee also considers the quality of their prior service to First Merchants, including the nature and extent of their participation in First Merchants' governance and their contributions of management and financial expertise and experience to the Board and First Merchants. For new director candidates, the Committee also considers whether their skills are complementary to those of existing Board members and whether they will fulfill the Board's needs for management,

Page 8

financial, technological or other expertise. The Nominating and Governance Committee considers candidates coming to its attention through current Board members, search firms, shareholders and other persons.

Article IV, Section 9, of First Merchants' Bylaws, describes the process by which a shareholder may suggest a candidate for consideration by the Committee as a director nominee. Under this process, a suggestion by a shareholder of a director nominee must include: (a) the name, address and number of First Merchants shares owned by the shareholder; (b) the name, address, age and principal occupation of the suggested nominee; and (c) such other information concerning the suggested nominee as the shareholder may wish to submit or the Committee may reasonably request. A suggestion for a director nominee submitted by a shareholder must be in writing and delivered or mailed to the Secretary, First Merchants Corporation, 200 East Jackson Street, Muncie, Indiana 47305. Suggestions for nominees from shareholders are evaluated in the same manner as other nominees. There are no nominees for election to the Board at the 2008 annual meeting of shareholders other than directors standing for re-election.

#### Compensation and Human Resources Committee

The Compensation and Human Resources Committee is composed of directors Charles E. Schalliol (Chairman), Thomas B. Clark and Roderick English. The Committee met 2 times during 2007. The Committee is responsible for establishing First Merchants' general compensation philosophy, overseeing the development and implementation of policies and programs to carry out this compensation philosophy, and evaluating the effectiveness of these policies and programs, in consultation with senior management. The Committee makes recommendations to the Board concerning the compensation to be paid to First Merchants' non-employee directors; and it administers First Merchants' non-equity incentive compensation program (the First Merchants Corporation Senior Management Incentive Compensation Program), the non-qualified deferred compensation plans (the First Merchants Corporation Supplemental Executive Retirement Plan, the First Merchants Corporation Defined Contribution Supplemental Executive Retirement Plan, and the First Merchants Corporation Directors' Deferred Compensation Plan), and the equity-based compensation plan (the First Merchants Corporation Long-term Equity Incentive Plan). The Long-term Equity Incentive Plan was submitted to and approved by First Merchants' shareholders in 1999.

The Committee reviews the performance of, and approves the compensation and benefits to be paid to, the executive officers and senior management employees of First Merchants and the chief executive officers and regional presidents of its subsidiaries. The Committee's charter permits the Committee to delegate its authority to review the performance of, and approve the compensation and benefits to be paid to, other employees of First Merchants and its subsidiaries to First Merchants' President and Chief Executive Officer and the chief executive officers of First Merchants' subsidiaries, as appropriate, and the Committee has done so. The Committee has also delegated the day-to-day responsibilities for administering First Merchants' non-equity incentive, deferred compensation, and equity-based programs to the President and CEO, Michael C. Rechin, and the Senior Vice President and Director of Human Resources, Kimberly J. Ellington. The Committee is authorized to directly engage counsel and consultants, including compensation consultants, to assist it in carrying out its responsibilities.

Mr. Rechin and Ms. Ellington provide information to the Committee and make recommendations from time to time, as requested by the Committee, concerning existing and proposed compensation policies and programs for executives and other employees of First Merchants and its subsidiaries. As the President and CEO, Mr. Rechin also makes recommendations to the Committee concerning the performance, compensation and benefits of First Merchants' executive officers (other than himself) and its senior management employees, as well as the chief

executive officers and regional presidents of First Merchants' subsidiaries.

In 2005, the Committee engaged Watson Wyatt & Company to conduct a competitive market assessment of the compensation of First Merchants' executive officers and to review First Merchants' Long-term Equity Incentive Plan to identify the need for design changes, if any. At the Committee's request, Watson Wyatt provided information, which included contemporary data on the extent peer companies have utilized long-term equity incentive programs and their mix of restricted stock and stock options, as well as information on accounting and tax considerations. Following completion of the study, based in part on Watson Wyatt's

Page 9

recommendation, the Committee changed First Merchants' equity-based compensation program, beginning in 2006, from one utilizing only stock options to one utilizing a mix of stock options and restricted stock awards for senior managers and only restricted stock awards for other participating employees. The Committee's actions were all consistent with the provisions of the Long-term Equity Incentive Plan.

In 2006, the Committee engaged Mercer Human Resource Consulting to provide information regarding the prevalence of executive retirement benefits among companies in general industry and the banking industry, to analyze the benefit levels and adequacy of financing of the Supplemental Executive Retirement Plan, a defined benefit non-qualified deferred compensation plan that pays retirement benefits to three retired executives of First Merchants, and to make plan design recommendations for a new defined contribution supplemental executive retirement plan. Based on Mercer's recommendations, the Committee made additional provisions for financing the Supplemental Executive Retirement Plan and adopted amendments to the plan necessary for compliance with Internal Revenue Code Section 409A; and the Committee established a new Defined Contribution Supplemental Executive Retirement Plan, initially covering only Mr. Rechin.

Compensation and Human Resources Committee Interlocks and Insider Participation

No member of the Compensation and Human Resources Committee - Charles E. Schalliol, Thomas B. Clark or Roderick English - was an officer or employee of First Merchants or any of its subsidiaries during 2007. None of these members has ever been an officer or employee of First Merchants or any of its subsidiaries. No member of the Compensation and Human Resources Committee or executive officer of First Merchants had a relationship during 2007 requiring disclosure in this proxy statement under SEC regulations.

Compensation and Human Resources Committee Report

The Compensation and Human Resources Committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth immediately following this report, under "Compensation of Executive Officers." Based on this review and discussion, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in First Merchants' annual report on Form 10-K for the fiscal year ended December 31, 2007 and in this proxy statement.

The above report is submitted by:

FIRST MERCHANTS CORPORATION COMPENSATION AND HUMAN RESOURCES COMMITTEE  
Charles E. Schalliol (Chairman)  
Thomas B. Clark  
Roderick English

#### COMPENSATION OF EXECUTIVE OFFICERS

Compensation Discussion and Analysis

The Compensation and Human Resources Committee is responsible for the design, implementation and evaluation of First Merchants' compensation programs and policies, aided by the company's executive officers and senior management and with the support of outside consultants as the Committee deems necessary or helpful. These programs and policies are intended to give all employees, including executive officers and other senior management employees, incentives to achieve First Merchants' current and long-term strategic goals - the ultimate objective being to obtain a superior return on shareholders' investment.

The compensation programs consist of four principal components: (1) salary, (2) non-equity incentive pay, (3) equity-based compensation, including both restricted stock awards and stock options, and (4) retirement benefits. The salary and non-equity incentive pay components, comprised entirely of current cash compensation, provide an immediate or near-term reward to executive officers and senior managers for exceptional performance - thereby advancing shorter-term goals. The equity-based compensation and retirement benefits components provide incentives for achieving longer-term goals. The restricted

stock awards and stock options both align the executive officers' and senior managers' financial interests directly with those of the shareholders by correlating the amount of compensation received with the price (and increase in price) of First Merchants stock. The equity-based compensation and retirement plans include vesting provisions, which also promote retention of senior management employees.

For 2007, First Merchants' "Named Executive Officers" ("NEOs") and their titles were:

- o Michael L. Cox, the President and Chief Executive Officer until his retirement on April 24, 2007;
- o Michael C. Rechin, the President and Chief Executive Officer since April 24, 2007; prior to that, the Executive Vice President and Chief Operating Officer;
- o Mark K. Hardwick, the Executive Vice President and Chief Financial Officer;
- o Robert R. Connors, the Senior Vice President and Chief Information Officer;
- o David W. Spade, the Senior Vice President and Chief Credit Officer; and
- o Jami L. Bradshaw, the Senior Vice President and Chief Accounting Officer.

The four principal components of First Merchants' compensation programs, and how the NEOs are compensated under them, are described below:

**Salaries.** The NEOs' salaries are determined annually by the Compensation and Human Resources Committee. The Committee determines these salaries subjectively, based on the executive's responsibilities and the Committee's review of the executive's individual performance and contributions to First Merchants' performance, especially its long-term and short-term financial performance. Other factors that the Committee takes into account include the executive's experience, the salaries paid to executives holding similar positions with First Merchants' competitors in the financial services industry, inflation rates and budgetary considerations. The Committee relies heavily on the recommendations of the CEO in setting the salaries of the NEOs other than the CEO. The Committee has the sole responsibility for establishing the CEO's salary.

Annual salary adjustments are usually determined in February, after First Merchants' audited financial statements for the preceding fiscal year have been issued, and the resulting salary adjustments are effective as of the first payroll in March. The Committee believes that, by waiting until the financial statements are issued, salary adjustments for the NEOs and other employees can be more accurately and effectively tied to their success in meeting financial targets and other strategic goals for the full year just ended. It also allows First Merchants to communicate decisions concerning salary adjustments to the NEOs and other senior management employees at the same time they are informed of incentive plan payments and equity-based awards, thus ensuring a clear and consistent message regarding performance and underlining First Merchants' emphasis on growing a performance-based culture.

Mr. Cox's 2007 salary, payable until his retirement on April 24, 2007, was \$111,962 - based on an annual salary of \$355,000. Mr. Rechin's 2007 salary of \$309,423 was based on an annual salary of \$275,000 until April 24, 2007, when he was promoted from Executive Vice President and COO to President and CEO. Thereafter, it was based on an annual salary of \$325,000, in recognition of his additional responsibilities. In 2008, Mr. Rechin's salary was increased to \$350,000, a 7.7% increase from \$325,000, in recognition of his performance since becoming CEO. Mr. Hardwick's salary for 2007 was \$209,000; and it was increased to \$250,000 in 2008, a 19.6% increase. Mr. Hardwick's larger increase was based in part on his exceptional performance and worth to First Merchants and in part on surveys of salaries paid to executives with similar responsibilities at other companies. Mr. Connors' salary for 2007 was \$192,200; it was increased to \$199,900 in 2008, a 4.0% increase. Mr. Spade's salary was \$175,000 in 2007; it was increased to \$180,700 in 2008, a 3.3% increase. Mr. Connors' and Mr. Spade's increases were in line with the merit increases given to most other senior management employees. Ms. Bradshaw's 2007 salary was increased from \$110,201 to \$125,000 on July 24, 2007, when she was promoted to Senior Vice President and Chief Accounting Officer. In 2008, she received a further increase in salary to \$145,000, a 16.0% increase, based on the CEO's recommendation and the Committee's consideration of her performance and surveys of the compensation paid to executives with similar responsibilities at other companies that compete with First Merchants.

**Non-equity incentive pay.** Non-equity incentive compensation is available to the NEOs and other senior managers through the Senior Management Incentive Compensation Program. Under the program, the NEOs and other participating senior management employees are eligible to receive additional cash compensation, determined as a percentage of their salaries, as incentive pay by meeting

individual goals that are closely related to First Merchants' financial success. Under the program, at the beginning of the year, participants are given goals, consisting of a target or targets, and in some cases, personal objectives, which upon being met, entitles the executive to receive a payout following the end of the year of 100% of a pre-determined percentage of the executive's salary. The schedules containing the targets also include thresholds below which no payout is made, as well as maximum payouts that may be higher than the target bonuses. For 2007, upon meeting a threshold, participants became entitled to 30% of the pre-determined percentage of their salary, and the maximum payout, depending on the executive's pre-established goals, was 170% - 200% of this percentage. The amounts earned under the program for a fiscal year are determined and paid out after First Merchants' audited financial statements for the applicable year have been issued, usually in February, contemporaneously with the determination of salaries and equity compensation for the following year.

The target bonuses payable to Messrs. Cox, Rechin and Hardwick for 2007 under the Senior Management Incentive Compensation Program were 45%, 45% and 40%, respectively, of their salaries, in each case based entirely on growth from the previous year in First Merchants' GAAP earnings per share. Earnings per share in 2007 grew more than the threshold percentage that made them eligible for bonuses, but not as much as the target percentage. As a result, Messrs. Cox's, Rechin's and Hardwick's incentive pay for 2007 was determined on the basis of 22.5%, 22.5%, and 20%, respectively, of their salaries. Mr. Cox's bonus was pro-rated to 31.2% of his full-year amount, since he retired on April 24, 2007. For 2007, Messrs. Connors and Spade were each eligible to receive target bonuses of 30% of their salaries under the Senior Management Incentive Compensation Program, while Ms. Bradshaw's target bonus was based on 25% of her salary until she was promoted to Senior Vice President and Chief Accounting Officer on July 24, 2007, when the target bonus was increased to 30% of her salary. For all three, 70% of their incentive pay depended on the improvement in First Merchants' operating earnings per share above a pre-established percentage, and 30% was based on achieving pre-established personal objectives established by the CEO. Operating earnings per share did grow more than the threshold percentage, thus making them eligible for bonuses; however earnings didn't grow as much as the target percentage. Mr. Connors and Ms. Bradshaw achieved all of their personal objectives, and Mr. Spade achieved part of his personal objectives. Based on these results, Messrs. Connors' and Spade's and Ms. Bradshaw's incentive pay for 2007 was 19.5%, 17.3% and 16.6%, respectively, of their salaries.

Until 2006, the Senior Management Incentive Compensation Program provided for payment of 2/3 of the incentive pay earned each year in cash and the other 1/3 in deferred stock units two years later, based on the price of First Merchants' stock on the December 31 preceding the payment date, plus accrued dividends. Under this provision, four of the NEOs - Messrs. Cox, Hardwick, Connors and Spade - received payments in early 2008, in the amounts of \$20,149, \$10,892, \$11,049 and \$937, respectively, that were based on deferred stock units and dividends they earned for the 2005 fiscal year that became vested at the end of 2007. Mr. Rechin and Ms. Bradshaw were not participants in the Senior Management Incentive Compensation Program in 2005 and thus did not receive payments based on deferred stock units earned for the 2005 fiscal year.

Equity-based compensation. Equity-based compensation is made available to the NEOs and other plan participants under the Long-term Equity Incentive Plan. The Compensation and Human Resources Committee approves stock option and restricted stock awards under the plan at a meeting that is usually held each year in February, at the same time salary adjustments and non-equity incentive payments are approved. In making stock option and restricted stock awards, the Committee relies heavily on the recommendations of the CEO except for the awards to the CEO.

Until 2006, stock option grants were the only equity-based compensation awarded under the Long-term Equity Incentive Plan. In 2005, the Compensation and Human Resources Committee engaged Watson Wyatt & Company to undertake a comprehensive study of the plan and to make recommendations concerning its design and administration. At the Committee's request, Watson Wyatt provided information, which included contemporary data on the extent peer companies have utilized long-term equity incentive programs and their mix of restricted stock and stock

options, as well as information on accounting and tax considerations. Following completion of the study, based in part on Watson Wyatt's recommendation, the Committee changed First Merchants' equity-based compensation program, beginning in 2006, from one utilizing only stock options to one utilizing only restricted stock awards for most plan participants and a mix of stock options and restricted stock awards for senior managers. This change in the program was within the Committee's discretion under the provisions of the plan. The CEO and the Committee concluded that, for the NEOs and other senior managers, stock option grants should continue to be a significant component of First Merchants' equity-based compensation program. This conclusion was based on the rationale

that the financial incentive provided by stock options depends entirely on increasing the price of First Merchants shares, thus furthering the program's purpose of aligning senior management's financial interests with those of First Merchants' shareholders.

The stock options granted to the NEOs and other senior managers under the Long-term Equity Incentive Plan are incentive stock options up to the statutory limit, and the rest are nonqualified options. The restricted stock awarded under the plan vests - giving the awardee complete ownership rights - if the awardee is still employed by First Merchants three years after the award is made; however, the awardee's rights in the stock vest immediately and the restrictions are removed if the awardee's employment terminates in less than three years on account of retirement, death or disability. The restricted stock partially vests if the awardee's employment is involuntarily terminated without "cause." Under this circumstance, the vested portion is based on a fraction, the numerator of which is the number of full years that have elapsed between the date of the award and the date of termination and the denominator of which is three. Notwithstanding the restrictions on the stock, the awardee is entitled to vote the shares and to receive the dividends thereon.

Mr. Cox did not receive an award under the Long-term Equity Incentive Plan in either 2007 or 2008 year because he retired on April 24, 2007. The awards made to the other NEOs under the plan on February 8, 2007 and February 27, 2008, respectively, were as follows: Mr. Rechin - 12,000 stock options and 3,000 shares of restricted stock in 2007, and 15,000 stock options and 4,000 shares of restricted stock in 2008; Mr. Hardwick - 8,000 stock options and 2,400 shares of restricted stock in 2007, and 8,000 stock options and 2,700 shares of restricted stock in 2008; Mr. Connors - 4,500 stock options and 1,600 shares of restricted stock in 2007, and 3,000 stock options and 2,000 shares of restricted stock in 2008; Mr. Spade - 4,000 stock options and 1,000 shares of restricted stock in 2007, and 4,000 stock options and 1,000 shares of restricted stock in 2008; Ms. Bradshaw - 2,000 options and 600 shares of restricted stock in 2007, and 1,500 stock options and 1,500 shares of restricted stock in 2008. The exercise price for the stock options was the closing price on the date the options were granted by the Compensation and Human Resources Committee; that is, \$26.31 per share on February 8, 2007 and \$28.25 per share on February 27, 2008.

Although not required to be shown in the Summary Compensation Table, the First Merchants Corporation Employee Stock Purchase Plan is a form of equity-based compensation that is equally available to all employees of First Merchants and its participating subsidiaries who have been employed six months or more. Under this plan, employees (including the NEOs) may elect, prior to the offering period (July 1 to June 30), to purchase shares of First Merchants' stock at a price equal to 85% of the lesser of the market price of the stock at the beginning of the offering period and the market price at the end of the period. The plan provides an attractive vehicle for employees to acquire First Merchants stock, which further aligns their financial interests with those of other shareholders. For the offering period ending June 30, 2007, the following NEOs participated in this plan: Mr. Rechin, who purchased 322 shares, Mr. Spade who purchased 193 shares, and Ms. Bradshaw, who purchased 258 shares. The purchase price for shares under the plan was \$20.43 per share.

Retirement benefits. First Merchants maintains a qualified defined benefit pension plan, the First Merchants Corporation Retirement Pension Plan, which it "froze" as of March 1, 2005, meaning that, with some exceptions, employees no longer accrued benefits under the plan. However, participants who were at least age 55 with 10 or more years of credited service on the date the plan was frozen were "grandfathered;" that is, they continued to accrue benefits under the plan after that date. Employees who were not participating in the plan on March 1, 2005 were not eligible to participate. The plan pays benefits at retirement to participating employees of First Merchants and its participating subsidiaries. The benefits payable under this plan, computed as a straight-life annuity although other forms of actuarially-equivalent benefits are available under the plan, are based on the following formula: 1.6% of average final compensation (in general, the participant's highest 60 consecutive months' W-2 compensation, less

incentive pay) plus .5% of average final compensation in excess of Social Security covered compensation, both times years of service to a maximum of 25 years. Although benefits are integrated with Social Security, they are not subject to any deduction for Social Security or other offset amounts. The benefits payable under the plan at age 65 to the participants whose benefits were frozen are determined under the formula described above, based on their average final compensation as of March 1, 2005, times a fraction, the numerator of which is the participant's years of credited service as of March 1, 2005, and the denominator of which is the participant's years of credited service projected to age 65.

Of the NEOs, Mr. Cox was the only one who was "grandfathered" due to having attained age 55 and 10 or more years of credited service as of March 1, 2005, so

he continued to accrue benefits under the plan until his retirement on April 24, 2007. Upon retiring, Mr. Cox began receiving an annual benefit under the plan that is the equivalent of a straight-life annuity of \$47,234. Since he elected payment in the form of a joint and 100% survivor annuity, his annual benefit under the plan is actually \$40,149. Messrs. Rechin and Spade did not participate in the First Merchants Corporation Retirement Pension Plan. The benefits accruing to Messrs. Hardwick and Connors and Ms. Bradshaw were frozen as of March 1, 2005, because they had not attained age 55 with 10 or more years of credited service as of that date. Assuming their employment continues to age 65, Messrs. Hardwick's and Connor's and Ms. Bradshaw's annual benefits under the plan, payable as a straight-life annuity, would be approximately \$8,594, \$7,895, and \$2,712, respectively.

Mr. Cox is also the only NEO who participates in the First Merchants Corporation Supplemental Executive Retirement Plan, a defined benefit, non-qualified "excess benefit" plan that provides additional retirement benefits to designated executives whose benefits under the First Merchants Corporation Retirement Pension Plan are restricted due to the limit under Internal Revenue Code Section 401(a)(17) on the amount of compensation that can be considered for purposes of calculating pension benefits under a qualified plan (for 2007, the last year Mr. Cox accrued benefits under this plan, this amount was \$225,000). The plan was closed to new participants when the First Merchants Corporation Retirement Pension Plan was frozen. Mr. Cox and two other previously retired First Merchants executives presently receive benefits under the plan. The benefit is calculated using the First Merchants Corporation Retirement Pension Plan formula described two paragraphs above, without applying the Section 401(a)(17) limit but including non-equity incentive pay in determining average final compensation, and subtracting the benefit that is payable to the executive under the Retirement Pension Plan. Mr. Cox began receiving an annual benefit of \$52,431 under the First Merchants Corporation Supplemental Executive Retirement Plan in January 2008, payable in the form of a fifteen-year certain annuity. Mr. Cox also received a lump sum payment of \$34,954 in January 2008, representing benefits payable under the plan for the period following his retirement in 2007 that were deferred to 2008.

First Merchants also maintains the First Merchants Corporation Retirement and Income Savings Plan, an Internal Revenue Code Section 401(k) qualified defined contribution plan under which participating employees of First Merchants and its subsidiaries can make pre-tax contributions to the plan, up to statutory limits and limits set forth in the plan, that are currently matched by the participant's employer at the rate of 50% of the participant's pre-tax contributions to the plan, to a maximum of 6% of compensation (defined as W-2 compensation plus certain voluntary pre-tax contributions, up to the Internal Revenue Code Section 401(a)(17) maximum, which was \$225,000 in 2007 and is \$230,000 in 2008). Thus, the maximum matching employer contribution under the plan is generally 3% of pay (less if the participant's compensation exceeds \$230,000). First Merchants made matching contributions for 2007 under the plan for NEOs Rechin, Hardwick, Connors, Spade and Bradshaw in the amounts of \$6,750, \$6,750, \$6,615, \$5,700 and \$3,827, respectively. For the participants who were "grandfathered" when the First Merchants Corporation Retirement Pension Plan was frozen, including Mr. Cox, the matching employer contribution under the First Merchants Corporation Retirement and Income Savings Plan is less. First Merchants matches only 25% of their pre-tax contributions under the plan, to a maximum of 5% of compensation. For 2007, First Merchants made a matching contribution under the plan for Mr. Cox in the amount of \$1,913. First Merchants also makes contributions on behalf of participants in the plan based on their years of service, currently from 2% to 7% of compensation in five-year increments (i.e., 2% for 0-4 years of service, 3% for 5-9 years of service, 4% for 10-14 years of service, 5% for 15-19 years of service, 6% for 20-24 years of service, and 7% for 25 or more years of service). The "grandfathered" participants, including Mr. Cox, are not eligible for these service-weighted contributions. For 2007, the other NEOs received service-weighted contributions as follows: Mr. Rechin, 2% of compensation, or \$4,500; Mr. Hardwick, 4% of

compensation, or \$9,000; Mr. Connors, 3% of compensation, or \$6,615; Mr. Spade, 2% of compensation, or \$3,800; and Ms. Bradshaw, 3% of compensation, or \$3,827. Finally, First Merchants is making "transition contributions" under the plan equal to 3% of compensation for the years 2005 through 2009, for employees who were participants in the First Merchants Corporation Retirement Pension Plan when it was frozen and who had attained age 45 with 10 or more years of credited service as of March 1, 2005 (other than the "grandfathered" participants). None of the NEOs is eligible for a transition contribution under the plan. Employee pre-tax contributions under the plan are always fully vested, while matching, service-weighted and transition contributions vest 20% after each year of service.

In 2006, the Compensation and Human Resources Committee engaged Mercer Human Resource Consulting to make plan design recommendations for a new defined contribution supplemental employee executive retirement plan, in view of the



fact that the primary retirement plan for all of the executive officers other than Mr. Cox is now a Section 401(k) defined contribution plan rather than a defined benefit plan. Based on Mercer's recommendations, the Committee established the First Merchants Corporation Defined Contribution Supplemental Executive Retirement Plan, effective as of January 1, 2006. Like the existing defined benefit Supplemental Executive Retirement Plan covering Mr. Cox, the Defined Contribution Supplemental Executive Retirement Plan is intended to provide additional retirement benefits to designated executives whose benefits under First Merchants' qualified retirement plan - in this case the First Merchants Corporation Retirement and Income Savings Plan - are restricted due to the limit under Internal Revenue Code Section 401(a)(17) on the amount of compensation that can be considered for purposes of calculating pension benefits under a qualified plan (\$225,000 in 2007 and is \$230,000 in 2008). The Committee has designated Mr. Rechin as the sole initial participant in the Defined Contribution Supplemental Executive Retirement Plan, effective as of January 1, 2006. Based on Mercer's recommendation, the Committee established the employer contribution for Mr. Rechin under the plan at 12% of his annual compensation, including his base salary and his non-equity incentive pay. Mercer calculated that, if Mr. Rechin continues to be employed by First Merchants until his normal retirement age, this contribution will provide an income replacement ratio of approximately 35%, based on a 7% return on the plan's investments. Mercer determined, based on its review of retirement benefits paid to executives holding similar positions at peer companies in the banking industry, that this income replacement ratio would be competitive with the industry. Mr. Rechin's benefit under the plan is subject to a 5 year "cliff" vesting provision. He is not permitted to make employee contributions under the plan. First Merchants' contribution for 2007 to this plan on behalf of Mr. Rechin was \$50,856.

Termination of Employment and Change of Control Arrangements. Although, in general, First Merchants does not have employment agreements with the Named Executive Officers or any of its other employees, who are all deemed to be "at will" employees, it does have "double trigger" change of control agreements with certain of its key executives, including each of the NEOs. First Merchants believes that change of control agreements are in the best interests of First Merchants and its shareholders, because they encourage key executives to remain with First Merchants and continue to act in First Merchants' and shareholders' interests in the event of a proposed acquisition or other change of control situation in which they might otherwise be influenced by the uncertainties of their own circumstances. A "double trigger" change of control agreement is one under which severance benefits are payable only if: (1) a change of control occurs; and (2) the executive's employment is terminated or constructively terminated following the change of control (under First Merchants' agreements, this termination must occur within 24 months following the change of control for the agreement to apply). No benefits are payable under the agreements in the event of the executive's voluntary retirement, death or disability, or if the executive's employment is terminated for cause. The definitions of "change of control" and "constructive termination" as used in these agreements are contained on page 23 of this proxy statement, under "Termination of Employment and Change of Control Arrangements." Payments under the change of control agreements are based on a multiple of the sum of the executive's annual base salary at the time of receiving notice of termination and the executive's largest annual non-equity incentive payment under the Senior Management Incentive Compensation Program during the two years preceding the date of termination. This multiple is 2.99 for Messrs. Rechin and Hardwick, and 1.50 for Messrs. Connors and Spade and Ms. Bradshaw. The aggregate of the lump sum severance benefit amounts that would have been payable to key executives under all of First Merchants' existing change of control agreements, if both of the triggering events had occurred on December 31, 2007, totals less than two percent of First Merchants' market capitalization. The change of control

Page 15

agreements were not entered into in response to any effort to acquire control of First Merchants, and the Board is not aware of any such effort. Because they represent such a small percentage of First Merchants' market capitalization, the Board does not believe that the existence of these agreements would discourage any such effort.

The only other existing agreement or arrangement providing for payment(s) at, following, or in connection with the termination of a NEO's or other senior manager's employment is the agreement that the Board approved on January 23, 2007, concerning Mr. Cox's retirement as the President and CEO of First Merchants on April 24, 2007. The details of that agreement are set forth in more detail on page 24 of this proxy statement, under "Termination of Employment and Change of Control Arrangements."

#### Summary Compensation Table

The following table provides information concerning all of the plan and non-plan compensation paid to the NEOs for 2006 and 2007.

Summary  
 Compensation  
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Change in  
 pension value  
 and non-  
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 equity deferred  
 Stock Option  
 incentive  
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 Cox President  
 and Chief 2006  
 \$361,887 \$ 0  
 \$25,268 \$32,766  
 \$4,793 \$205,052  
 \$27,918 \$657,684  
 Executive  
 Officer 2007  
 111,962 0 60,208  
 40,621 24,947  
 210,608 12,740  
 461,086 Michael  
 C. Rechin  
 Executive Vice  
 President 2006  
 280,288 100,100  
 14,864 21,844  
 3,300 0 51,788  
 472,184 and  
 Chief Operating  
 2007 309,423 0  
 57,833 83,434  
 69,620 0 69,270  
 589,580 Officer  
 Mark K. Hardwick  
 Executive Vice  
 President 2006  
 193,699 0 14,864  
 19,113 19,950  
 2,495 15,434  
 265,555 and  
 Chief Financial  
 2007 206,077 0  
 35,527 44,558  
 41,800 1,555  
 20,182 349,699  
 Officer Robert  
 R. Connors  
 Senior Vice  
 President and  
 2006 185,704 0  
 10,405 10,922  
 16,398 4,695  
 12,310 240,434  
 Chief

Information  
 Officer 2007  
 190,662 0 24,243  
 25,256 37,479  
 3,689 16,374  
 297,703 David W.  
 Spade Senior  
 Vice President  
 and 2006 164,327  
 0 10,405 0  
 12,800 0 10,568  
 198,100 Chief  
 Credit Officer  
 2007 175,000 0  
 19,547 11,513  
 30,188 0 12,392  
 248,640 Jami L.  
 Bradshaw Senior  
 Vice President  
 and 2006 100,385  
 0 2,973 0 6,765  
 1,026 5,675  
 116,824 Chief  
 Accounting  
 Officer 2007  
 119,878 0 8,044  
 5,757 20,760 684  
 8,958 164,081 -

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Merchants paid Mr. Rechin a signing bonus of \$100,000 when he was hired in November 2005, to offset a bonus that he would have received from his previous employer had he not left its employment. This signing bonus was paid to Mr. Rechin in early 2006. The other \$100 was paid to Mr. Rechin under a customer referral program. No bonuses were paid to any of the other NEOs during 2006 or 2007 except as part of a non-equity incentive plan. Page 16 A discussion of the assumptions used in calculating these values is contained in Note 60 to the 2007 audited financial statements, on page 60 of First Merchants' Annual Report. The amounts shown in the Non-equity Incentive Plan Compensation column are payments under the First Merchants Corporation Senior Management Incentive Compensation Program for 2006 and 2007 performance that were paid in February 2007 and February 2008, respectively. The amounts shown in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column for Messrs. Hardwick and Connors and Ms. Bradshaw are the changes in the actuarial present value of

their frozen benefits under the First Merchants Corporation Retirement Pension Plan for 2006 and 2007. For Mr. Cox, the amount shown for 2006 is the sum of the increase in the actuarial present value of his benefits under the First Merchants Corporation Retirement Pension Plan (\$78,517) and the increase in the actuarial present value of his benefits under the First Merchants Corporation Supplemental Executive Retirement Plan (\$126,535). The amount shown for 2007 is the sum of the increase in the actuarial present value of Mr. Cox's benefits under the First Merchants Corporation Retirement Pension Plan (\$91,162) and the increase in the actuarial present value of his benefits under the First Merchants Corporation Supplemental Executive Retirement Plan (\$119,446). Mr. Cox began receiving monthly benefits under the First Merchants Corporation Retirement Pension Plan in May 2007 and under the First Merchants Corporation Supplemental Executive Retirement Plan in January 2008. Messrs. Rechin and Spade have not participated in any defined benefit plan or other actuarial pension plan maintained by First Merchants.

No NEO received above-market or preferential earnings on deferred compensation during 2006 or 2007. First Merchants made matching contributions to the First Merchants Corporation Retirement and Income Savings Plan for the benefit of the NEOs in the following amounts for 2006 and 2007, respectively:

Mr. Cox - \$2,750 and \$1,913; Mr. Rechin - \$6,600 and \$6,750; Mr. Hardwick - \$6,600 and \$6,750; Mr. Connors - \$6,433 and \$6,615; Mr. Spade - \$5,028 and \$5,700; and Ms. Bradshaw - \$2,954 and \$3,827. First Merchants made

service-weighted employer contributions to the First Merchants Corporation Retirement and Income Savings Plan for the benefit of the NEOs in the following amounts for 2006 and 2007, respectively:

Mr. Cox - \$0 and \$0; Mr. Rechin - \$4,400 and \$4,500; Mr. Hardwick - \$6,694 and \$9,000; Mr. Connors - \$4,289 and \$6,615; Mr. Spade - \$3,352 and \$3,800; and Ms. Bradshaw - \$1,969 and \$3,827. First Merchants also

made contributions to the First Merchants Corporation Defined Contribution Supplemental Executive Retirement Plan in 2006 and 2007 for the benefit of Mr. Rechin in

the amounts of \$33,396 and \$50,896, respectively. During 2006, Mr. Cox was the only NEO whose compensation included perquisites in the aggregate amount of \$10,000 or more.

The aggregate amount of his perquisites and other personal benefits for 2006 totaled \$21,740, including personal use of a company-owned car, payment of country club dues, automobile insurance premiums and medical and travel expenses.

During 2007, none of the NEOs received perquisites in the aggregate amount of \$10,000 or more. Mr. Cox received a retirement gift from First Merchants upon his retirement in April 2007, which had a value of \$9,797.

The other amounts shown in the All Other Compensation column include the dollar value of life insurance premiums and dividends on restricted stock awards paid to or for the benefit of each of the NEOs during 2006 and 2007.

First Merchants does not have employment agreements with any of the NEOs.

#### Grants of Plan-based Awards Table

The following table provides information concerning all of the grants of plan-based awards made to the NEOs for 2007, which included non-equity incentive pay and awards of restricted stock and stock options.

Grants of  
Plan-Based  
Awards for  
2007 Fiscal  
Year - ----  
-----  
-----







The payments made in February 2008 for 2007 performance under the Program are shown in the Non-equity Incentive Plan Compensation column of the Summary Compensation Table on page 16 of this proxy statement.

The compensation programs under which the grants in the above Grants of Plan-Based Awards Table were made are generally described in the Compensation Discussion and Analysis, on pages 12-13 of this proxy statement, and include the Senior Management Incentive Compensation Program, a non-equity incentive plan, and the Long-term Equity Incentive Plan, which provides for stock option grants and restricted stock awards. The following is a summary of material factors that will assist in an understanding of the information disclosed in the Grants of Plan-Based Awards Table.

Under the Senior Management Incentive Compensation Program, each of the NEOs was given goals at the beginning of 2007, consisting of a target or targets, and in some cases, personal objectives, which upon being met, entitled the executive to receive a payout following the end of the year of 100% of a pre-determined percentage of the executive's base salary. The schedules containing the targets also included thresholds, at which the executive became entitled to 30% of the pre-determined percentage and below which no payout would be made, as well as maximum payouts equal to 200% of the pre-determined percentage, or in some cases, 170%. The amounts earned under the program for 2007 were paid out in February 2008.

Under the Long-term Equity Incentive Plan, awards of stock options and restricted stock were granted to each of the NEOs in February 2007, except that no awards were made to Mr. Cox because he retired in April 2007. This was in accordance with the terms of the retirement agreement between the Board and Mr. Cox, which is described in more detail on page 24 of this proxy statement, under "Termination of Employment and Change of Control Arrangements." In most cases, the number of stock options awarded to each executive was approximately 3-4

Page 18

times the number of shares of restricted stock awarded to the executive. The aggregate number of equity awards to each executive was roughly commensurate with the executive's position and level of responsibilities. The exercise price for the stock options was the closing price on the date the options were granted, February 8, 2007. The stock options will vest and become exercisable two years after the date they were granted or, if earlier, on the date the executive's employment terminates on account of retirement, death or disability. The restricted stock will vest, giving the executive complete ownership rights, if the executive is still employed by First Merchants three years after the date of the award of the executive's employment terminates in less than three years on account of retirement, death or disability. The restricted stock will partially vest if the executive's employment is involuntarily terminated without "cause," the number that will vest being a fraction of the shares awarded, the numerator of which is the number of full years that have elapsed between the date of the award and the date of termination and the denominator of which is three. Notwithstanding the restrictions on the stock, the executive is entitled to vote the shares and to receive the dividends thereon. The normal dividend rate applies to the restricted shares; the rate is not preferential.

#### Outstanding Equity Awards at Fiscal Year-end Table

The following table provides information concerning unexercised stock options, restricted stock awards that have not vested, and equity incentive plan awards for each of the NEOs outstanding as of the end of First Merchants' 2007 fiscal year.

Outstanding  
Equity Awards





Merchants  
 common stock  
 under the Long-  
 term Equity  
 Incentive Plan  
 on July 1,  
 2007, which  
 vested on  
 January 1,  
 2008. Messrs.  
 Rechin,  
 Hardwick,  
 Connors and  
 Spade and Ms.  
 Bradshaw were  
 awarded 2,000,  
 2,000, 1,400,  
 1,400 and 400  
 restricted  
 shares,  
 respectively,  
 under First  
 Merchants'  
 Long-term  
 Equity  
 Incentive Plan  
 on February 10,  
 2006. These  
 shares will  
 vest on  
 February 10,  
 2009. Messrs.  
 Rechin,  
 Hardwick,  
 Connors and  
 Spade and Ms.  
 Bradshaw were  
 also awarded  
 3,000, 2,400,  
 1,600, 1,000  
 and 600  
 restricted  
 shares,  
 respectively,  
 under the Long-  
 term Equity  
 Incentive Plan  
 on February 8,  
 2007. These  
 shares will  
 vest on  
 February 8,  
 2010. In  
 addition, Mr.  
 Rechin was  
 awarded 2,000  
 restricted  
 shares under  
 the Long-term  
 Equity  
 Incentive Plan  
 on December 22,  
 2005, of which  
 666 shares  
 vested on  
 December 22,  
 2006, 667  
 shares vested  
 on December 22,  
 2007, and 667  
 shares will  
 vest on  
 December 22,  
 2008.

#### Option Exercises and Stock Vested Table

The following table provides information concerning each exercise of stock options and each vesting of stock, including restricted stock and restricted stock units, during First Merchants' 2007 fiscal year for each of the NEOs.

Option  
Exercises  
and Stock  
Vested  
During  
Fiscal Year  
2007 -----  
-----  
-----  
-----  
-----  
-----  
-----

- Option  
awards Stock  
awards Name  
-----  
-----  
-----

-----  
Number of  
Value Number  
of Value  
shares  
realized  
shares  
realized  
acquired on  
on exercise  
acquired on  
on exercise  
vesting  
vesting ----  
-----  
-----  
-----  
-----  
-----  
-----  
-----

--- Michael  
L. Cox 6,078  
\$18,903  
4,251  
\$101,749  
Michael C.  
Rechin 0 0  
667 15,294  
Mark K.  
Hardwick 0 0  
460 10,892  
Robert R.  
Connors 0 0  
467 11,049  
David W.  
Spade 0 0 40  
937 Jami L.  
Bradshaw 0 0  
0 0 -----  
-----  
-----  
-----  
-----  
-----  
-----

-----  
Page 20 All  
of the  
amounts  
shown in the  
Number of  
Shares or  
Units  
Acquired on  
Vesting  
column for  
Messrs.  
Hardwick,  
Connors and  
Spade, and  
851 of the  
shares shown

for Mr. Cox, are deferred stock units they earned under the Senior Management Incentive Compensation Program for the 2005 fiscal year which vested at the end of the 2007 fiscal year. The amounts shown in the Value Realized on Vesting column, with respect to these deferred stock units, were paid in cash to these executives in February 2008, in accordance with the program's provisions.

These payments to Messrs. Cox, Hardwick, Connors and Spade included dividends that would have been payable on an equivalent number of shares of First Merchants stock during 2006 and 2007, in the amounts of \$1,566, \$846, \$859 and \$73, respectively.

The amount shown in the Number of Shares or Units Acquired on Vesting column for Mr. Rechin is the portion of the restricted stock award made to him on December 22, 2005 under the First Merchants'

Long-term  
Equity  
Incentive  
Plan which  
vested on  
December 22,  
2007. This  
award is  
further  
described in  
footnote 2  
to the  
Outstanding  
Equity  
Awards at  
Fiscal Year-  
End 2007  
Table on  
page 20 of  
this proxy  
statement.  
The amount  
shown in the  
Value  
Realized on  
Vesting  
column for  
Mr. Rechin  
was  
determined  
by  
multiplying  
the number  
of shares  
that vested  
(667) times  
the closing  
price of  
First  
Merchants  
stock on  
December 22,  
2007  
(\$22.93).

#### Pension Benefits Table

The First Merchants Corporation Retirement Pension Plan (the "Pension Plan") is a qualified defined benefit pension plan that pays monthly retirement benefits to eligible employees. The benefits, computed as a straight-life annuity although other forms of actuarially-equivalent benefits are available under the plan, are based on the following formula: 1.6% of average final compensation (in general, the participant's highest 60 consecutive months' W-2 compensation, less incentive pay) plus .5% of average final compensation in excess of Social Security covered compensation, both times years of service to a maximum of 25 years. The plan was frozen, effective March 1, 2005, for participants who had not yet attained age 55 and been credited with 10 or more years of service as of that date, meaning that their accrued benefits were vested and they no longer accrued benefits under the plan, and employees who were not participating in the plan as of that date were not eligible to participate. The benefits payable under the plan at age 65 to the participants whose benefits were frozen are determined under the above formula, based on their average final compensation as of March 1, 2005, times a fraction, the numerator of which is the participant's years of service as of March 1, 2005, and the denominator of which is the participant's years of service projected to age 65. The participants who were at least age 55 with 10 or more years of service at the time the plan was frozen continued to accrue benefits under the plan until their retirement.

The First Merchants Corporation Supplemental Executive Retirement Plan (the "SERP"), a defined benefit, nonqualified "excess benefit" plan, provides additional retirement benefits to designated executives whose benefits under the Pension Plan are restricted due to the limit under Internal Revenue Code Section 401(a)(17) on the amount of compensation that can be considered for purposes of calculating pension benefits under a qualified plan. This amount was \$220,000 for 2006 and \$225,000 for 2007 (there are no executives accruing benefits under this plan after 2007). The benefit payable under this plan is calculated using the Pension Plan formula described in the preceding paragraph, without applying the Section 401(a)(17) limit and including non-equity incentive pay in determining average final compensation, and then subtracting the benefit which is payable to the executive under the Pension Plan. The SERP is unfunded and subject to forfeiture in the event of bankruptcy. The Corporation has



established a "rabbi" trust, with the First Merchants Trust Company, National Association, a wholly-owned subsidiary of the Corporation, as the trustee. The Corporation makes annual contributions to the trust to help pay the Corporation's liabilities under the SERP, with which the trustee pays premiums on corporate-owned life insurance that is intended to help pay these liabilities.

The following table shows benefits accrued to the NEOs under the Retirement Pension Plan and the Supplemental Executive Retirement Plan as of December 31, 2007. The assumptions used in calculating the present value of a NEO's accumulated benefit are the same as those used for financial reporting purposes with respect to the Corporation's 2007 audited financial statements, assuming that the executive retires at age 65, the normal retirement age under the plan. A discussion of these assumptions is contained in Note 17 to the 2007 audited financial statements, on page 63 of the Corporation's Annual Report.

Accrued Pension Benefits at Fiscal Year-End 2007	Name	Plan name	Number of Present value Payments years of accumulated during fiscal credited benefit as of year 2007	service as 12/31/07 of 12/31/07
	Michael L. Cox	11.90	\$593,851	\$26,766
	Pension Plan SERP	11.90	714,427	0
	Michael C. Rechin	N/A	N/A	N/A
	Mark K. Hardwick	Pension	7.32	26,226
	0 Plan			
	Robert R. Connors	Pension	2.50	67,117
	0 Plan			
	David W. Spade	N/A	N/A	N/A
	N/A	N/A	N/A	N/A
	Jami L.			



benefit under the SERP commenced in January 2008, payable as a 15-year certain life annuity in the annual amount of \$52,431. Messrs. Rechin and Spade were not participants in the Pension Plan. Messrs. Hardwick and Connors and Ms. Bradshaw had not attained age 55 or been credited with more than 10 years of service when the Pension Plan was frozen, so their benefits under the plan were frozen. The NEOs' years of credited service under the Pension Plan and the SERP were one fewer than their number of actual years of service with the Corporation.

#### Nonqualified Deferred Compensation Table

In 2006, First Merchants established the First Merchants Corporation Defined Contribution Supplemental Executive Retirement Plan (the "Defined Contribution SERP"), a nonqualified plan that is intended to provide additional retirement benefits to designated executives whose benefits under the Corporation's qualified Internal Revenue Code Section 401(k) defined contribution plan - the First Merchants Corporation Retirement and Income Savings Plan (the "Section 401(k) Plan") - are restricted due to the limit under Internal Revenue Code Section 401(a)(17) on the amount of compensation that can be considered for purposes of calculating pension benefits under a qualified plan. The Corporation annually credits a percentage of the participant's compensation (base salary plus non-equity incentive pay) for the plan year, as determined by the Compensation and Human Resources Committee, to a deferred benefit account established for the participant under the plan. No amount is credited to the participant's account under the Defined Contribution SERP unless the participant has made sufficient contributions to the Section 401(k) Plan for the year to entitle the participant to the maximum matching employer contributions under the Section 401(k) Plan. Participants are not permitted to make contributions to



0 0 0 0  
Robert R.  
Connors 0 0 0  
0 0 David W.  
Spade 0 0 0 0  
0 Jami L.  
Bradshaw 0 0  
0 0 0 -----  
-----  
-----  
-----  
-----  
-----  
-----  
-----  
-----

----- Mr.  
Rechin is the only NEO who has been designated as a participant in the Defined Contribution SERP. The Corporation credited 12 % of Mr. Rechin's compensation (base salary plus non-equity incentive pay) to his account for 2007. This amount is also reported as compensation to Mr. Rechin in the Summary Compensation Table on page 16 of this proxy statement, in the column headed "All Other Compensation."

Termination of Employment and Change of Control Arrangements

First Merchants has change of control agreements with each of the NEOs, except for Mr. Cox, whose change of control agreement terminated when he retired on April 24, 2007. These are "double trigger" change of control agreements, in that they provide for the payment of severance benefits to the executives only in the event of both a change of control of First Merchants and a termination or constructive termination of the employment of the executive within 24 months after the change of control (but no payment will be made if the termination was for cause, because of the executive's death, disability or voluntary retirement, or by the executive other than on account of constructive termination). In general, a "change of control" means an acquisition by any person of 25% or more of First Merchants' voting shares, a change in the makeup of a majority of the Board over a 24-month period, a merger of First Merchants in which the shareholders before the merger own 50% or less of First Merchants' voting shares after the merger, or approval by First Merchants' shareholders of a plan of complete liquidation of First Merchants or an agreement to sell or dispose of substantially all of First Merchants' assets. A "constructive termination" means, generally, a significant reduction in duties, compensation or benefits or a relocation of the executive's office outside of the area described in the agreement, unless agreed to by the executive.

Upon the occurrence of the two triggering events, a covered executive would be entitled, in addition to base salary and incentive compensation accrued through the date of termination, to payment from First Merchants, or its successor in the event of a purchase, merger or consolidation, of a lump sum severance benefit in an amount determined by multiplying the sum of (1) the executive's









116,668  
119,015  
Roderick  
English  
18,000 2,347  
0 20,347 Jo  
Ann M. Gora  
18,000 2,347  
0 20,347  
William L.  
Hoy 2,836 0  
0 2,836  
Barry J.  
Hudson  
51,000 2,347  
0 53,347  
Charles E.  
Schalliol  
\$46,250  
\$2,347 0  
\$48,597  
Robert M.  
Smitson  
15,833 0 0  
15,833 Terry  
L. Walker  
18,000 2,347  
0 20,347  
Jean L.  
Wojtowicz  
26,000 2,347  
0 28,347 ---  
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The dollar amounts shown for option awards represent the dollar amounts of those awards recognized for financial statement reporting purposes for 2007 in accordance with FAS 123R. A discussion of the assumptions used in calculating these values is contained in Note 16 to the 2007 audited financial statements, on page 60 of First Merchants' Annual Report. As of the end of 2007 fiscal year, the non-employee

directors  
had the  
following  
aggregate  
number of  
option  
awards

outstanding:

Mr. Boehning  
- 6,942; Mr.

Clark -  
11,454; Mr.

Cox -  
103,521; Mr.

English -  
3,471; Dr.

Gora -  
3,471; Mr.

Hoy - 0; Mr.  
Hudson -

15,321; Mr.  
Schalliol -

3,471; Mr.  
Smitson -

10,297; Mr.  
Walker -

1,157; and  
Ms.

Wojtowicz -  
4,628. Mr.

Boehning  
also

received an  
\$11,550

retainer  
(which was

fully  
deferred

under an  
unfunded

deferred  
compensation

plan) and  
life

insurance  
coverage in

the amount  
of \$6,000

for his  
services as

a director  
of Lafayette

Bank and  
Trust

Company,  
National

Association,  
a wholly

owned  
subsidiary

of First  
Merchants,

in 2007.

This  
retainer was

pro-rated  
due to his

retirement  
as a

Lafayette  
Bank

director on  
July 31,

2007. Mr.  
Hoy was paid

\$4,100 for  
his services

as a  
director of

Commerce  
National

Bank, a wholly owned subsidiary of First Merchants, in 2007. Mr. Hudson was paid \$3,000 in 2007 (of which he deferred \$1,089 under an insurance-funded deferred compensation plan) for his services as Chairman of the Board of Directors of First National Bank of Portland, a wholly owned subsidiary of First Merchants, until First National was merged into First Merchants Bank, National Association, another wholly owned subsidiary of First Merchants, on April 1, 2007. Mr. Clark and Mr. Walker deferred payment of \$19,500 and \$9,000, respectively, of their fees earned in 2007, under the provisions of the 2007 Directors' Deferred Compensation Plan described on page 25 of this proxy statement. In addition to fees earned in 2007 totaling \$18,000, Mr. Hudson was paid \$33,000 in 2007 for his services as a non-employee director in 2005 and 2006, for

which he had not previously received payment due to an oversight. Mr. Cox was paid \$116,668 in 2007 for his services as a consultant under the Agreement between Mr. Cox and the Board described on page 24 of this proxy statement, under "Termination of Employment and Change of Control Agreements."

VOTING ITEM 2 - PROPOSAL TO APPROVE THE FIRST MERCHANTS CORPORATION EQUITY COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS

First Merchants' shareholders are asked to approve the First Merchants Corporation Equity Compensation Plan for Non-Employee Directors (the "Plan"). If approved, the Plan will provide that at least one-half of the compensation payable to non-employee directors must be in restricted shares of First Merchants common stock instead of cash. The following background information and summary of the major features of the Plan are subject to the specific provisions contained in the full text of the Plan set forth in Appendix A.

## Background Information

In 2007, the Compensation and Human Resources Committee undertook a review of First Merchants non-employee director compensation, studying current trends in director compensation including information regarding other public companies' fee arrangements compiled by consulting firms and/or disclosed in recently filed proxy statements. The data showed that non-employee director compensation has increased significantly within the past few years in recognition of the substantial increases in time and effort and levels of personal responsibility and financial risk demanded of public company directors, underlining the importance of attracting the most qualified candidates. Further, under prevailing corporate governance best practices, non-employee director compensation now generally includes an element of equity-based as well as cash compensation, in order to further align director pay with company stock performance. Based on its review, the Committee recommended and the Board approved, a restructured non-employee director compensation program. The first element of the program became effective January 1, 2008. The non-employee directors' annual retainers were increased to \$40,000 (\$75,000 for the Chairman of the Board) - a level comparable to peer public companies including, in particular, other financial holding companies. In recognition of their additional responsibilities, the Audit Committee Chairman receives an additional \$10,000 and other Committee Chairmen an additional \$5,000 (except for the Chairman of the Board, who doesn't receive additional pay for serving as a Committee Chairman). Directors do not receive additional amounts for serving on Board Committees or for attending meetings.

The second element of the program, if approved by the shareholders at the 2008 annual meeting, will provide for payment of at least one-half of non-employee director compensation in restricted shares of First Merchants common stock instead of cash. Under NASDAQ Marketplace Rules, this provision for payment of part of the directors' compensation in the form of First Merchants common stock must be approved by the shareholders before it can be implemented. If the shareholders do not approve the First Merchants Corporation Equity Compensation Plan for Non-Employee Directors, the non-employee directors will continue to receive all of their compensation, as described in the immediately preceding paragraph, in the form of cash.

## Purpose of First Merchants Corporation Equity Compensation Plan for Non-Employee Directors

The Plan is intended to be beneficial to First Merchants and its shareholders, in that non-employee directors will have a greater personal financial stake in First Merchants through the payment of a significant portion of their compensation in First Merchants common stock. This will underscore the non-employee directors' common interest with shareholders in increasing the long-term value of First Merchants common stock.

### Key Terms

Effective Date  
April 29, 2008  
Participant Any  
member of the  
First Merchants  
Board who is  
not an employee  
of First  
Merchants or  
any of its  
subsidiaries.  
Compensation  
Any retainer,  
fee or other  
payment of any  
kind to which a  
Participant is  
entitled for  
services as a  
non-employee  
director of  
First  
Merchants, but  
excluding any  
stock option  
granted under  
First  
Merchants'  
Long-term  
Equity  
Incentive Plan.  
Restricted

Share A share  
of First  
Merchants  
common stock  
that is  
nontransferable  
and subject to  
a substantial  
risk of  
forfeiture.  
Shares  
Authorized  
500,000 shares  
(approximately  
2.8% of  
outstanding  
shares) over 10  
years, subject  
to automatic  
adjustment in  
the event of a  
stock split,  
stock dividend,  
recapitalization  
or similar  
event. Page 27  
Payment Date  
Quarterly in  
arrears, as of  
the last  
business day of  
the calendar  
quarter.

Plan Termination April 29, 2018, unless terminated earlier by the Board.

#### Compensation Payable in Restricted Shares

All Participants will receive a fraction of their Compensation - not less than one-half - in Restricted Shares, effective for Compensation payable for calendar quarters ending after the Effective Date; i.e., commencing as of the second quarter of 2008. The Board will determine this fraction from time-to-time and, in the absence of such determination, the fraction will be one-half. Thus, if the fraction is one-half, a Participant who is entitled to a \$40,000 annual retainer will receive \$20,000 in cash and \$20,000 in Restricted Shares. The number of Restricted Shares to be issued each quarter will be determined on the basis of their fair market value as of the Payment Date; that is, the last reported sale price of a share of First Merchants stock on that date, or if no sale took place, the last reported sale price of a share on the most recent day on which a sale of a share of stock took place as reported by NASDAQ or a national securities exchange on which First Merchants stock is listed on such date.

#### Restrictions on Shares

Restricted Shares issued under the Plan will be nontransferable by the Participant and subject to a substantial risk of forfeiture until the earliest of the following dates: (i) the third anniversary of the date the shares were issued if, as of the date the restrictions are to lapse, the Participant has continued to serve as a non-employee director from the date as of which the shares were issued to the date of lapse; (ii) the date of the Participant's retirement as a member of the Board after he or she has attained age 55; (iii) the date of the Participant's death; (iv) the date the Participant is determined to be totally and permanently disabled, as defined in Internal Revenue Code Section 22(e)(3); or (v) the date of a Change of Control, as defined in the Long-term Equity Incentive Plan. In the event a Participant's service as a non-employee director terminates prior to the date the restrictions lapse, the shares still subject to the restrictions will be forfeited. The Participant will be deemed to be the beneficial owner of the Restricted Shares issued under the Plan unless and until they are forfeited. As the beneficial owner, the Participant will have all rights of beneficial ownership in such shares including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto.

#### Deferral of Compensation Payable in Restricted Shares

A Participant may elect to defer payment of all or part of his or her Compensation that is payable in Restricted Shares, in accordance with the provisions of the 2007 Directors' Deferred Compensation Plan described on page 25 of this proxy statement. An account will be established for a Participant who makes this election, which account: (a) will be credited with deferred stock











Stock Option Agreements ("Agreements"). These Agreements provided for non-qualified stock options of First Merchants common stock to be awarded between 1995 and 2002 to each director of First Merchants Bank, National Association (the "Bank"), who, on the date of the grants: (a) was serving as a director of the Bank; (b) was not an employee of First Merchants, the Bank, or any of First Merchants' other affiliated banks or the non-bank subsidiaries; and (c) was not serving as a director of First Merchants. 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% vested when granted and are fully exercisable six months after the date of the grant, for a period of ten years.

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE PROPOSAL TO APPROVE THE FIRST MERCHANTS CORPORATION EQUITY COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS. IF THE SHAREHOLDERS DO NOT APPROVE THE PLAN, NON-EMPLOYEE DIRECTORS WILL CONTINUE TO RECEIVE THE FULL AMOUNT OF THEIR COMPENSATION IN CASH.

#### Non-Employee Director Stock Ownership Guideline

Although not part of the First Merchants Corporation Equity Compensation Plan for Non-Employee Directors that is being submitted to the shareholders for approval at the 2008 annual meeting, the restructured non-employee director compensation program adopted by the Board effective January 1, 2008 also includes a guideline providing that all directors will be expected to acquire and hold First Merchants stock equal in value to at least three times their total annual director compensation while serving on the Board. Directors will be expected to meet this guideline as soon as reasonably possible, taking into account the director's relevant financial and other circumstances, but in no event more than six years after the director is first elected to the Board.

Certain directors and executive officers of First Merchants and its subsidiaries and their associates are customers of, and have had transactions with, First Merchants' subsidiary banks from time to time in the ordinary course of business. Additional transactions may be expected to take place in the ordinary course of business in the future. All loans and commitments included in such transactions were made on substantially the same terms, including interest rates

and collateral, as those prevailing at the time for comparable loans with persons not related to the lender and did not involve more than the normal risk of collectibility or present other unfavorable features.

Richard A. Boehning, a director of First Merchants and Lafayette Bank and Trust Company, National Association, a wholly owned subsidiary of First Merchants, is of counsel to the law firm of Bennett, Boehning & Clary LLP, Lafayette, Indiana, which Lafayette Bank and Trust has retained as legal counsel during 2007 and will continue to retain as legal counsel in 2008. Charles E. Schalliol, a director of First Merchants, is of counsel to the law firm of Baker & Daniels LLP, Indianapolis, Indiana, which First Merchants Bank, National Association, a wholly owned subsidiary of First Merchants, has retained as legal counsel during 2007 and will continue to retain as legal counsel in 2008. The Board has determined that these relationships do not prevent Mr. Boehning or Mr. Schalliol from being "independent directors," as defined in the NASDAQ listing standards.

In accordance with First Merchants' Code of Business Conduct, all transactions in which First Merchants is or is to be a participant and the amount involved exceeds \$120,000, and in which a director or executive officer of First Merchants, or any member of his or her immediate family, had or will have a direct or indirect material interest, will be reviewed for potential conflict of interest and must be approved by the Audit Committee. Under the standards set forth in the Code of Business Conduct, the Audit Committee will determine whether the transaction might pose an actual or apparent conflict of interest and, if so, whether such conflict would prevent the director or executive officer from complying with his or her obligation never to allow personal interests to interfere with objectivity in performing responsibilities to First Merchants and never to use or attempt to use a position with First Merchants to obtain any improper personal financial or other benefit for the director or executive officer, his or her family members, or any other person.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires First Merchants' directors and executive officers to file reports of ownership and changes in ownership of First Merchants stock with the SEC. Based on its records and the written representations of its directors and executive officers, First Merchants believes that during 2007 these persons complied with all Section 16(a) filing requirements; except that: (1) a late Form 4 report was filed on May 17, 2007 by director and retired executive officer Michael L. Cox to report the sale of 1,014 shares on April 24, 2007; (2) a late Form 4 report was filed on June 22, 2007 by executive officer Shawn R. Blackburn to report the sale of 633 shares on June 8, 2007; (3) a late Form 3 report was filed by director Terry L. Walker on July 27, 2007 to correct a Form 3 report filed on July 26, 2006, which had omitted 525 shares owned by Mr. Walker's spouse in an investment management account; and (4) two late Form 4 reports were filed on December 31, 2007 by director Richard A. Boehning, the first to report the purchase of 1,400 shares on August 6, 2007 and the second to report the sale of 1,400 shares on December 17, 2007.

INDEPENDENT AUDITOR

Fees for Professional Services Rendered by BKD, LLP

The following table shows the aggregate fees billed by BKD, LLP for audit and other services rendered to First Merchants for 2006 and 2007.

	2006	2007
	----	----
Audit Fees	\$397,500	\$382,500
Audit-Related Fees	83,911	66,923
Tax Fees	77,072	100,801
All Other Fees	0	0
	-----	-----
Total Fees	\$558,483	\$550,224
	=====	=====

The "Audit Fees" were for professional services rendered for the audits of First

Merchants' consolidated financial statements and internal control over financial reporting, reviews of condensed consolidated financial statements included in First Merchants' Forms 10-Q, and assistance with regulatory filings. The "Audit-Related Fees" were for professional services rendered for audits of First Merchants' benefit plans.

The "Tax Fees" were for professional services rendered for preparation of tax returns and consultation on various tax matters.

All of the services related to the "Audit-Related Fees," "Tax Fees" and "All Other Fees" for 2006 and 2007 were pre-approved by the Audit Committee in accordance with the Committee's pre-approval policy described below.

The Audit Committee has considered whether the provision by BKD, LLP of the services covered by the fees other than the audit fees is compatible with maintaining BKD, LLP's independence and believes that it is compatible.

#### Pre-approval Policies and Procedures

The Audit Committee has established a pre-approval policy, under which the Committee is required to pre-approve all audit and non-audit services performed by First Merchants' independent auditor, in order to assure that the provision of such services does not impair the auditor's independence. These services may include audit services, audit-related services, tax services and other services. Under this policy, pre-approval is provided for 12 months from the date of pre-approval unless the Committee specifically provides for a different period. The policy is detailed as to the particular services or category of services and fee levels that are pre-approved. Unless a service or type of service to be provided by the independent auditor has received general pre-approval, it will require specific pre-approval by the Audit Committee. The Committee must also approve any proposed services exceeding the pre-approved fee levels. The independent auditor is required to provide detailed back-up documentation with respect to each proposed pre-approved service at the time of approval. The Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority has been delegated must report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent auditor to management.

#### VOTING ITEM 3 - RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR FOR 2008

The Board, subject to ratification by the shareholders, has appointed BKD, LLP as First Merchants' independent auditor for 2008. If the shareholders do not ratify the appointment of BKD, the Audit Committee and the Board will reconsider this appointment. Representatives of the firm are expected to be present at the annual shareholders' meeting. They will have an opportunity to make a statement, if they desire to do so, and are expected to be available to respond to appropriate questions.

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF THE FIRM OF BKD, LLP AS FIRST MERCHANTS' INDEPENDENT AUDITOR FOR 2008.

#### SHAREHOLDER PROPOSALS

Proposals of shareholders intended to be presented at the 2009 annual meeting of the shareholders must be received by the Secretary of First Merchants at First Merchants' principal office by November 20, 2008, for inclusion in First Merchants' 2009 proxy statement and form of proxy relating to that meeting.

Shareholder proposals, if any, intended to be presented at the 2008 annual meeting that were not submitted for inclusion in this proxy statement will be considered untimely unless they were received by the Secretary of First Merchants at First Merchants' principal office by January 29, 2008. The Secretary did not receive any such shareholder proposals by that date.

#### OTHER MATTERS

Shareholders who, according to First Merchants' records, share an address may receive only one Notice Regarding the Availability of Proxy Materials on the Internet or only one set of proxy materials, unless the shareholders have provided contrary instructions. Any shareholder who received only one Notice Regarding the Availability of Proxy Materials or one set of proxy materials, and who wishes to receive a separate Notice or a separate set of proxy materials now or in the future, may write or call First Merchants' Shareholder Services Department to request a separate Notice or a separate set of proxy materials at First Merchants Corporation, P. O. Box 792, Muncie IN 47308-0792; (800) 262-4261, extension 21522. Similarly, shareholders who share an address and who

have received multiple Notices Regarding the Availability of Proxy Materials or multiple copies of proxy materials may write or call First Merchants' Shareholder Services Department at the same address and telephone number to request delivery of a single Notice or a single copy of these materials in the future.

The cost of soliciting proxies will be borne by First Merchants. In addition to solicitations by mail, proxies may be solicited personally or by telephone or other electronic means, but no solicitation will be made by specially engaged employees or paid solicitors.

The Board and management are not aware of any matters to be presented at the annual meeting of the shareholders other than the election of directors, the proposal to approve the First Merchants Corporation Equity Compensation Plan for Non-Employee Directors, and the ratification of the appointment of the independent auditor. However, if any other matters properly come before the annual meeting or any adjournment thereof, the holders of the proxies are authorized to vote thereon at their discretion, provided First Merchants did not have notice of any such matter on or before January 29, 2008.

By Order of the Board of Directors

Muncie, Indiana  
March 19, 2008

Cynthia G. Holaday  
Secretary

A-5  
APPENDIX A

FIRST MERCHANTS CORPORATION  
EQUITY COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS

ARTICLE I

ESTABLISHMENT AND PURPOSE

Section 1.01. Establishment of Plan. First Merchants Corporation, an Indiana corporation (the "Company"), hereby establishes the First Merchants Corporation Equity Compensation Plan for Non-Employee Directors (the "Plan"), effective as of April 29, 2008 (the "Effective Date"), subject to the approval of the Plan at the Company's 2008 annual meeting of shareholders by the holders of a majority of the shares of the Company's common stock present and voting at that meeting in person or by proxy.

Section 1.02. Purpose. The purpose of the Plan is to promote the interests of the Company and its shareholders by more closely aligning the interests of the Company and its Non-Employee Directors by requiring the payment of at least one-half (1/2) of the Compensation payable to Non-Employee Directors for their service in that capacity in Restricted Shares of the Company's common stock. A "Non-Employee Director" means any member of the board of directors of the Company (the "Board") who is not an employee of the Company or any of its Subsidiaries. A "Subsidiary" means a corporation or other form of business association of which shares (or other ownership interests) having fifty percent (50%) or more of the voting power are, or in the future become, owned or controlled, directly or indirectly, by the Company.

ARTICLE II

ADMINISTRATION

The Plan shall be administered by the Compensation and Human Resources Committee of the Board (the "Committee"), which shall serve at the pleasure of the Board. The Committee shall have full authority to administer the Plan, including authority to interpret and construe any provision of the Plan and to adopt such rules and regulations for administering the Plan as it may deem necessary to comply with the requirements of the Plan or any applicable law. All actions taken and interpretations made in good faith by the Committee, or taken or made by any other person or persons to whom the Committee has delegated authority, in the administration of the Plan shall be final and binding upon all interested persons. All decisions by the Committee shall be made with the approval of not less than a majority of its members. No member of the Committee shall be liable for anything done or omitted to be done by him or her or by any other member of the Committee or the Board in connection with the Plan, except for his or her own willful misconduct or as expressly provided by statute.

ARTICLE III

PARTICIPATION; NON-EMPLOYEE DIRECTOR COMPENSATION

Section 3.01. Participation. All Non-Employee Directors shall automatically become participants in the Plan with respect to all Compensation payable to them for calendar quarters ending after the Effective Date, until the Plan is terminated in accordance with the provisions of Article VII. "Compensation" means any retainer, fee or other payment of any kind to which a Non-Employee Director is entitled for services performed in that capacity, including, without limitation, any additional amount payable to a Non-Employee Director for

Page A-1

chairing a Board committee, but excluding any "Director Option" granted under the Company's 1999 Long-Term Equity Incentive Plan (the "1999 Equity Incentive Plan").

Section 3.02. Non-Employee Director Compensation. The Board shall annually, or at other times as the Board shall deem appropriate, determine the amount of Compensation to be payable for services performed by Non-Employee Directors, in accordance with applicable laws and regulations. Such Compensation shall be paid quarterly, as of the last business day of each calendar quarter.

Section 3.03. Fraction Payable in Restricted Shares. A fraction of all

Compensation payable to Non-Employee Directors for calendar quarters ending after the Effective Date, as determined by the Board from time to time, which fraction shall not be less than one-half (1/2), shall be paid in Restricted Shares, as defined in Section 3.04. In the absence of such determination, this fraction shall be one-half (1/2). The number of Restricted Shares to be issued to each Non-Employee Director shall be determined on the basis of the Fair Market Value of such Shares as of the date (i.e., the last business day of the calendar quarter) for which the Compensation is payable. The "Fair Market Value" of a Restricted Share means the last reported sale price of a share of the Company's common stock on the relevant date, or if no sale took place, the last reported sale price of a share on the most recent day on which a sale of a share of stock took place as reported by NASDAQ or a national securities exchange on which the Company's stock is listed on such date. The shares shall be issued as of the last business day of the relevant calendar quarter and shall be credited to the Non-Employee Director's stock account as soon as administratively feasible thereafter, but in no event shall any such payment be made later than the March 15 of the calendar year next following the calendar year in which such shares were earned. To the extent Compensation payable in Restricted Shares to a Non-Employee Director under this Section 3.03 would result in a fractional share of common stock being issuable to such Non-Employee Director, cash shall be paid to the Non-Employee Director in lieu of such fractional share.

Section 3.04. Restrictions on Shares. A "Restricted Share" means a share of the Company's common stock that is nontransferable and subject to a substantial risk of forfeiture, to the extent provided in this Section 3.04. The shares issued to a Non-Employee Director in accordance with Section 3.03 may be registered in the name of a nominee or held in such other manner as the Committee determines to be appropriate. A book entry stock account will be established in the Non-Employee Director's name. The Non-Employee Director will be the beneficial owner of the shares issued and credited to his or her stock account and, subject to the restrictions set forth in this Section 3.04, he or she will have all rights of beneficial ownership in such shares including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto. The Company or its nominee will retain custody of the shares issued under this Plan until (i) all of the restrictions have lapsed in accordance with Subsection 3.04(a), and (ii) the Non-Employee Director makes a specific request in writing to the Company for such shares to be sold, transferred or delivered; provided, however, at any time following the lapse of such restrictions, a Non-Employee Director may request that a stock certificate, representing all or part of the shares credited to his or her stock account on which the restrictions have lapsed, be issued and delivered to the Non-Employee Director. None of the shares issued under this Plan may be sold, transferred, assigned, pledged, encumbered or otherwise alienated or hypothecated, unless and until, and then only to the extent that, these restrictions have lapsed in accordance with Subsection 3.04(a).

- (a) Lapse of Restrictions. The restrictions set forth in the first paragraph of Section 3.04 shall lapse on the earliest of the following dates: (i) the third anniversary of the date as of which the Restricted Shares were issued if, as of the date the restrictions are to lapse, the Non-Employee Director has continued to serve in that capacity from the date as of which the Restricted Shares were issued to the date of lapse; (ii) the date of the Non-Employee Director's retirement as a member of the Board after he or she has attained age fifty-five (55); (iii) the date of the Non-Employee Director's death; (iv) the date the Non-Employee Director is determined to be totally and permanently disabled, as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), or (v) the date of a "Change of Control," as defined in the 1999 Equity Incentive Plan.
- (b) Forfeiture of Restricted Shares. In the event a Non-Employee Director's service as a member of the Board terminates prior to the date the restrictions on all or part of the Restricted Shares issued pursuant to the

Plan have lapsed in accordance with Subsection 3.04(a), all shares still subject to the restrictions shall be returned to or canceled by the Company and shall be deemed to have been forfeited by the Non-Employee Director.

Section 3.05. Deferral of Compensation Paid in Restricted Shares. A Non-Employee Director may elect to defer payment of all or part of his or her Compensation that is payable in the form of Restricted Shares under the provisions of this Article III, in accordance with the First Merchants Corporation 2007 Directors' Deferred Compensation Plan (the "Directors' Deferred Compensation Plan"), modified as provided in the following sentences of this Section 3.05. A Non-Employee Director who makes such an election shall be credited with Deferred Stock Units (which may include fractional shares) equal to the number of Restricted Shares that the Non-Employee Director would otherwise receive in accordance with Section 3.03 of this Plan. The Non-Employee Director shall not be deemed to be the beneficial owner of any shares of the Company's stock that the Non-Employee Director would have received had the



election not been made, and he or she shall not have the right to vote any such shares or to receive any dividends or other distributions paid or made with respect thereto. However, in lieu of the provision for crediting interest to a Non-Employee Director's Account under Section 3.4 of the Directors' Deferred Compensation Plan, the portion of the Non-Employee Director's Account under the Directors' Deferred Compensation Plan that is credited with Deferred Stock Units shall be credited with earnings each quarter equal to the dividends that would be payable on an equivalent number of shares of the Company's common stock. Notwithstanding Section 4.2 of the Directors' Deferred Compensation Plan, the only permissible form of payment of the portion of the balance in the Non-Employee Director's Account under the Directors' Deferred Compensation Plan credited with Deferred Stock Units shall be a distribution of shares of Company common stock in a single lump sum payment; provided, however, the Non-Employee Director shall receive cash in lieu of a fractional share. The provisions of Section 3.04 of this Plan shall supersede the vesting provisions of Section 4.4 of the Directors' Deferred Compensation Plan to the extent they may conflict.

#### ARTICLE IV

##### SHARES ISSUABLE UNDER PLAN

Section 4.01. Number of Shares. The shares issuable under the Plan shall be the Company's authorized but unissued, or reacquired, common stock, or shares purchased in the open market. The maximum number of shares of common stock that may be issued under the Plan shall be 500,000, as adjusted pursuant to Section 4.02.

Section 4.02. Adjustment. If the Company shall at any time increase or decrease the number of its outstanding shares of common stock or change in any way the rights and privileges of such shares by means of a payment of a stock dividend or any other distribution upon such shares payable in common stock, or through a stock split, reverse stock split, subdivision, consolidation, combination, reclassification, or recapitalization involving common stock, then the numbers, rights and privileges of the shares issuable under Section 4.01 shall be increased, decreased or changed in like manner.

#### ARTICLE V

##### MISCELLANEOUS PROVISIONS

Section 5.01. No Right to be Elected. Neither the Plan nor any action taken hereunder shall be construed as giving any Non-Employee Director any right to be elected or re-elected as a director of the Company.

Section 5.02. Non-Assignment. A participant's rights and interest under the Plan may not be assigned or transferred, hypothecated or encumbered, in whole or in part, either directly or by operation of law or otherwise (except, in the event of a participant's death, by will or the laws of descent and distribution), including, without limitation, execution, levy, garnishment,

Page A-3

attachment, pledge, bankruptcy, or in any other manner; and no such right or interest of any participant in the Plan shall be subject to any obligation or liability of such participant.

Section 5.03. Compliance with Applicable Laws. No shares of the Company's common stock shall be issued hereunder unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable federal, state, local and foreign securities, securities exchange, and other applicable laws and regulations.

Section 5.04. Withholding. It shall be a condition to the obligation of the Company to issue shares of common stock hereunder that the participant pay to the Company, to the extent required by law and upon its demand, such amount as may be requested by the Company for the purpose of satisfying any liability to withhold federal, state, local or foreign income or other taxes. A participant in the Plan may satisfy the withholding obligation, in whole or in part, by electing to have the Company withhold shares of common stock, otherwise issuable under the Plan, having a Fair Market Value equal to the amount required to be withheld. If the amount requested is not paid, the Company shall have no obligation to issue, and the participant shall have no right to receive, shares of common stock.

Section 5.05. Unfunded Plan. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the issuance of shares hereunder.

Section 5.06. Ratification of Actions Taken. By accepting any payment of Non-Employee Director Compensation hereunder or other benefit under the Plan,

each participant, and each person claiming under or through him or her, shall be conclusively deemed to have indicated his or her acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board, or the Committee.

Section 5.07. Registration. The appropriate officers of the Company shall cause to be filed any registration statement required by the Securities Act of 1933, as amended, and any reports, returns or other information regarding any shares of common stock issued pursuant to the Plan as may be required by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any other applicable statute, rule or regulation.

Section 5.08. Governing Law. The interpretation, validity and enforcement of this Plan shall, to the extent not otherwise governed by the Code or the securities laws of the United States, be governed by the laws of the State of Indiana.

Section 5.09. Headings. Headings are given to the sections of this Plan solely as a convenience to facilitate reference. Such headings, numbering and paragraphing shall not in any case be deemed in any way material or relevant to the construction of this Plan or any provisions hereof. The use of the singular shall also include within its meaning the plural, where appropriate, and vice versa.

## ARTICLE VI

### AMENDMENT

The Board may amend the Plan at any time and from time to time, as it deems advisable; provided, however, that no amendment shall become effective without shareholder approval if such shareholder approval is required by any applicable federal or state law, rule or regulation, or by the rules of NASDAQ or any national exchange on which the Company's common stock is listed; and provided, further, that any such amendment shall comply with applicable provisions of Rule 16b-3 under Section 16 of the Exchange Act, as in effect from time to time, the Code and the rules thereunder as in effect from time to time, and, to the extent applicable, the Employee Retirement Income Security Act of 1974, as amended, and the rules thereunder as in effect from time to time. No amendment of the Plan shall materially and adversely affect any right of any participant with respect to any shares of common stock of the Company theretofore issued without such participant's written consent.

Page A-4

## ARTICLE VII

### TERMINATION

This Plan shall terminate upon the earlier of (a) the Board's adoption of a resolution terminating the Plan, or (b) April 29, 2018, which is ten (10) years from the date the Plan was initially approved and adopted by the shareholders of the Company in accordance with Article VIII. No termination of the Plan shall materially and adversely affect any of the rights or obligations of any person without his or her written consent with respect to any shares of common stock of the Company theretofore earned and issuable under the Plan.

## ARTICLE VIII

### SHAREHOLDER APPROVAL

The Plan shall be effective as of the Effective Date, contingent upon shareholder approval and adoption at the 2008 annual meeting of the shareholders of the Company. The shareholders shall be deemed to have approved and adopted the Plan only if it is approved and adopted at a meeting of the shareholders duly held by vote taken in the manner required by the securities laws of the United States, the Code, and the laws of the State of Indiana, as applicable.

Page A-5

