FIRST MERCHANTS CORP
Form 10-Q
November 09, 2005

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _______ to _______

Commission File Number 0-17071

First Merchants Corporation

(Exact name of registrant as specified in its charter)

Indiana	35-1544218
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 East Jackson Street Muncie, IN	47305-2814
(Address of principal executive offices)	(Zip code)

(765) 747-1500

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by checkmark whether the registrant is a shell company (as defined in

Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of October 17, 2005, there were 18,508,305 outstanding common shares, without par value, of the registrant.

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	September 30, 2005 (Unaudited)	December 31, 2004
ASSETS:		
Cash and due from banks	$ 81,310	$ 69,960
Interest-bearing deposits.....................................	10,708	9,343
Investment securities available for sale	424,818	416,177
Investment securities held to maturity	11,976	5,358
Mortgage loans held for sale..................................	5,026	3,367
Loans, net of allowance for loan losses of $25,149 and $22,548.	2,418,782	2,405,503
Premises and equipment	38,473	38,254
Federal Reserve and Federal Home Loan Bank stock..............	23,165	22,858
Interest receivable	19,561	17,318
Goodwill	121,266	120,615
Core deposit intangibles	18,331	20,669
Cash surrender value of life insurance........................	43,230	42,061
Other assets	21,792	20,185
Total assets	$ 3,238,438	$ 3,191,668
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 346,318	$ 330,685
Interest-bearing	2,118,975	2,077,465
Total deposits	2,465,293	2,408,150
Borrowings	423,959	440,891
Interest payable	5,643	4,411
Other liabilities...	25,153	23,613
Total liabilities	2,920,048	2,877,065
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY:		
Perferred stock, no-par value:		
Authorized and unissued - 500,000 shares		
Common Stock, $.125 stated value:		
Authorized --- 50,000,000 shares		
Issued and outstanding - 18,507,970 and 18,573,997 shares....	2,313	2,322
Additional paid-in capital	148,004	150,862
Retained earnings	171,419	161,459
Accumulated other comprehensive income (loss).................	(3,346)	(40)

Total stockholders' equity	318,390	314,603
Total liabilities and stockholders' equity	$ 3,238,438	$ 3,191,668

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Se
	2005	2004	2005
Interest Income:			
Loans receivable			
Taxable	$40,853	$35,342	$116,5
Tax exempt	160	143	4
Investment securities			
Taxable	2,427	2,146	7,1
Tax exempt	1,595	1,679	4,7
Federal funds sold	51	18	1
Deposits with financial institutions	185	154	4
Federal Reserve and Federal Home Loan Bank stock	296	319	8
Total interest income	45,567	39,801	130,3
Interest expense:			
Deposits	12,172	8,487	32,7
Borrowings	5,255	4,522	14,6
Total interest expense	17,427	13,009	47,3
Net Interest Income	28,140	26,792	83,0
Provision for loan losses	1,794	1,380	6,4
Net Interest Income After Provision for Loan Losses	26,346	25,412	76,5
Other Income:			
Net realized gains on sales of available-for-sale securities.	16	332	
Other income	8,764	8,079	26,5
Total other income	8,780	8,411	26,5
Other expenses:			
Salaries and benefits	13,384	13,087	41,4

Other expenses	9,917	9,703	29,2
Total other expenses	23,301	22,790	70,7
Income before income tax	11,825	11,033	32,4
Income tax expense	3,605	3,380	9,7
Net Income	$ 8,220	$ 7,653	$22,7
Per share:			
Basic	$ .45	$ .41	$ 1.2
Diluted	.44	.41	1.2
Dividends	.23	.23	.6

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months E September 3	
	2005	
Net Income	$ 8,220	$
Other comprehensive income, net of tax:		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period, net of income tax (expense) benefit of $589, $(3,104), $2,195 and $(359)	(883)	
Less: Reclassification adjustment for gains included in net income, net of income tax expense of $6, $133, $9 and $293	10	
	(893)	
Comprehensive income	$ 7,327	$ 1

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	2005	2004
Balances, January 1	$ 314,603	$ 303,965
Net income	22,708	21,943
Cash dividends	(12,748)	(12,777)
Other comprehensive income (loss), net of tax..................	(3,306)	100
Stock issued under employee benefit plans......................	913	903
Stock issued under dividend reinvestment and stock purchase plan	638	977
Stock options exercised	2,114	981
Stock redeemed	(6,970)	(2,430)
Issuance of stock in acquisition...............................	438	
Balances, September 30	$ 318,390	$ 313,662

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nin S
	2005
Cash Flows From Operating Activities:	
Net income..	$ 22,
Adjustments to reconcile net income to net cash provided by operating activities	
Provision for loan losses..	6,
Depreciation and amortization..	3,
Mortgage loans originated for sale...	(55,
Proceeds from sales of mortgage loans......................................	53,
Change in interest receivable..	(2,
Change in interest payable...	1,

Other adjustments		3,
Net cash provided by operating activities	$	33,
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	$	(1,
Purchases of securities available for sale		(77,
Proceeds from maturities of securities available for sale		54,
Proceeds from sales of securities available for sale		2,
Purchase of Federal Reserve and Federal Home Loan Bank Stock		(
Net change in loans		(19,
Other adjustments		(4,
Net cash used by investing activities	$	(46,
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	$	(171,
Certificates of deposit and other time deposits		228,
Borrowings		99,
Repayment of borrowings		(116,
Cash dividends		(12,
Stock issued under employee benefit plans		
Stock issued under dividend reinvestment and stock purchase plans		
Stock options exercised		2,
Stock redeemed		(6,
Net cash provided by financing activities		24,
Net Change in Cash and Cash Equivalents		11,
Cash and Cash Equivalents, January 1		69,
Cash and Cash Equivalents, September 30	$	81,

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)
(Unaudited)

NOTE 1. General

The significant accounting policies followed by First Merchants Corporation ("Corporation") and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments which are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated condensed financial statements.

The consolidated condensed balance sheet of the Corporation as of December

31, 2004 has been derived from the audited consolidated balance sheet of the Corporation as of that date. Certain information and note disclosures normally included in the Corporation's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Form 10-K annual report filed with the Securities and Exchange Commission.

The results of operations for the three and nine month periods ended September 30, 2005 are not necessarily indicative of the results to be expected for the year.

Stock options are granted for a fixed number of shares to employees. The Corporation's stock option plans are accounted for in accordance with Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. APB No. 25 requires compensation expense for stock options to be recognized only if the market price of the underlying stock exceeds the exercise price on the date of the grant. For all grants, no stock-based employee compensation cost is reflected in net income, as options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date.

During the three months ended September 30, 2005, the Corporation accelerated the vesting of options previously granted, and the vesting period for 2005 grants was established so that those grants would be fully vested by year-end. The term of the acceleration is such that no expense will be recognized by the Corporation on those grants, although it will continue to report the impact of the acceleration in its proforma disclosures of the earnings per share.

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

	Three Months Ended September 30,		Ni
	2005	2004	200
Net income, as reported	$ 8,220	$ 7,653	$ 22
Add: Total stock-based employee compensation cost included in reported net income, net of income taxes..			
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(1,083)	(140)	(1
Pro forma net income	$ 7,137	$ 7,513	$ 21
Earnings per share:			
Basic - as reported	$ .45	$ .41	$
Basic - pro forma	.39	.41	
Diluted - as reported	.44	.41	
Diluted - pro forma	.38	.40	

FIRST MERCHANTS CORPORATION

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)
(Unaudited)

NOTE 1. General (continued)

The Corporation makes its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, available on its website at www.firstmerchants.com without charge, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission. Additionally, upon request the Corporation will also provide without charge, a copy of its Form 10-Q to any shareholder by mail. Requests should be sent to Mr. Brian Edwards, Shareholder Relations Officer, First Merchants Corporation, P.O. Box 792, Muncie, IN 47308-0792.

NOTE 2. Impact of Accounting Changes

In June 2005, the FASB Board decided not to provide additional guidance on the meaning of other-than-temporary impairment, but directed the FASB staff to issue a staff position (FSP) which will be retitled FSP 115-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". The final FSP will supersede EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," and EITF Topic No. D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value."FSP FAS 115-1 will replace guidance in EITF Issue 03-1 on loss recognition with references to existing other-than-temporary impairment guidance, such as FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities". FSP FAS 115-1 will clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other than temporary, even if a decision to sell has not been made.

FSP FAS 115-1 will be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. The Corporation has consistently followed the loss recognition guidance in SFAS No. 115, so the adoption of FSP FAS 115-1 will not have any significant impact on the Corporation's financial condition or results of operation.

On April 14, 2005, the SEC amended the compliance date for SFAS No. 123(R) from the beginning of the first interim or annual period that begins after June 15, 2005 to the next fiscal year beginning after June 15, 2005. Early adoption is permitted in periods in which financial statements have not yet been issued. The Corporation expects to adopt SFAS No. 123(R) as of January 1, 2006. The effect on the Corporation's results of operations will depend on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided, and so cannot currently be predicted for future awards.

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

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

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)
(Unaudited)

NOTE 3. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at September 30, 2005				
U.S. Treasury	$ 1,495		$ (1)	$ 1,494
U.S. Government-sponsored agency securities...................	78,002	$	(965)	77,037
State and municipal	162,982	3,325	(427)	165,880
Mortgage-backed securities	173,121	213	(3,400)	169,934
Other asset-backed securities.........	16			16
Marketable equity securities..........	10,870		(413)	10,457
Total available for sale	426,486	3,538	(5,206)	424,818
Held to maturity at September 30, 2005				
State and municipal...................	11,933	399	(275)	12,057
Mortgage-backed securities............	43			43
Total held to maturity	11,976	399	(275)	12,100
Total investment securities	$438,462	$ 3,937	$ (5,481)	$436,918

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2004				
U.S. Treasury	$ 1,745		$ (1)	$ 1,744

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

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)
(Unaudited)

NOTE 4. Loans and Allowance

	September 30, 2005
Loans:	
Commercial and industrial loans	$ 476,010
Agricultural production financing and other loans to farmers	94,262
Real estate loans:	
Construction	171,667
Commercial and farmland	719,154
Residential	746,777
Individuals' loans for household and other personal expenditures	186,792
Tax-exempt loans	12,439
Lease financing receivables, net of unearned income..........................	9,538
Other loans	27,292
	2,443,931
Allowance for loan losses..	(25,149)
Total Loans..	$ 2,418,782

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Septemb

2005

Allowance for loan losses:	
Balances, January 1	$ 22,548
Provision for losses	6,409
Recoveries on loans	1,436
Loans charged off	(5,244)
Balances, September 30	$ 25,149

Information on nonaccruing, contractually past due 90 days or more other than nonaccruing and restructured loans is summarized below:	September 30, 2005	December 31, 2004
Non-accrual loans	$ 11,757	$ 15,355
Loans contractually past due 90 days or more other than nonaccruing	3,560	1,907
Restructured loans	454	2,019
Total	$ 15,771	$ 19,281

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)
(Unaudited)

NOTE 5. Net Income Per Share

	Three Months Ended September			
	2005			
	Income	Weighted-Average Shares	Per Share Amount	Income
Basic net income per share:				
Net income available to common stockholders	$ 8,220	18,478,154	$ .45	$ 7,65
Effect of dilutive stock options		111,880		
Diluted net income per share:				
Net income available to common stockholders and assumed conversions	$ 8,220	18,590,034	$ .44	$ 7,65

Options to purchase 207,349 and 415,186 shares for the three months ended September 30, 2005 and 2004 were not included in the earnings per share calculation because the exercise price exceeded the average market price.

	Nine Months Ended September 30, 2005			
	Income	Weighted-Average Shares	Per Share Amount	Income
Basic net income per share:				
Net income available to common stockholders.................	$ 22,708	18,490,866	$ 1.23	$ 21,943
Effect of dilutive stock options........		115,042		
Diluted net income per share:				
Net income available to common stockholders and assumed conversions.............	$ 22,708	18,605,908	$ 1.22	$ 21,943

Options to purchase 170,312 and 295,025 shares for the nine months ended September 30, 2005 and 2004 were not included in the earnings per share calculation because the exercise price exceeded the average market price.

FIRST MERCHANTS CORPORATION

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)
(Unaudited)

Note 6. Defined Benefit Pension Costs

The Corporation has defined benefit pension plans covering substantially all employees. The plans provide benefits that are based on the employees' compensation and years of service. The Corporation uses an actuarial calculation to determine pension plan costs.

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

Benefits." This loss was recognized and recorded by the Corporation in the first quarter of 2005.

The following represents the pension cost for the three and nine months ended September 30, 2005.

	Three Months Ended September 30,		Nin S
	2005	2004	2005
Pension Cost			
Service cost..	$ 145	$ 480	$
Interest cost	658	697	1,
Expected return on plan assets	(768)	(701)	(2,
Amortization of the transition asset....................	(7)	(37)	
Amortization of prior service cost......................	1	34	
Amortization of the net loss............................	24	88	
Curtailment loss..			1,
Total Pension Cost..............................	$ 53	$ 561	$ 1,

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

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

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

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

* fluctuations in market rates of interest and loan and deposit pricing, which could negatively affect the Corporation's net interest margin, asset valuations and expense expectations;
* adverse changes in the economy, which might affect the Corporation's business prospects and could cause credit-related losses and expenses;
* adverse developments in the Corporation's loan and investment portfolios;
* competitive factors in the banking industry, such as the trend towards consolidation in the Corporation's market;
* changes in the banking legislation or the regulatory requirements of federal and state agencies applicable to bank holding companies and banks like the Corporation's affiliate banks;
* acquisitions of other businesses by the Corporation and integration of such acquired businesses;
* changes in market, economic, operational, liquidity, credit and interest rate risks associated with the Corporation's business; and
* the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations continued

CRITICAL ACCOUNTING POLICIES

Generally accepted accounting principles are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of the Corporation must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of the Corporation's significant accounting policies, see "Notes to the Consolidated Financial Statements" in the Corporation's 2004 Annual Report. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. Management has reviewed the application of these policies with the Audit Committee of the Corporation's Board of Directors. For a discussion of applying critical accounting policies, see "Critical Accounting Policies" within the Corporation's 2004 Annual Report.

BUSINESS SUMMARY

The Corporation is a financial holding company headquartered in Muncie, Indiana. Since its organization in 1982, the Corporation has grown to include 9 affiliate banks with 65 locations in 17 Indiana and 3 Ohio counties. In addition to its branch network, the Corporation's delivery channels include ATMs, check cards, interactive voice response systems and internet technology.

The Corporation's business activities are currently limited to one significant business segment, which is community banking. The Corporation's financial service affiliates include 9 nationally chartered banks: First Merchants Bank, N.A., The Madison Community Bank, N.A., First United Bank, N.A., United Communities National Bank, First National Bank, Decatur Bank and Trust Company, N.A., Frances Slocum Bank & Trust Company, N.A., Lafayette Bank and Trust Company, N.A. and Commerce National Bank. The banks provide commercial and retail banking services. In addition, the Corporation's trust company, multi-line insurance company and title company provide trust asset management services, retail and commercial insurance agency services and title services, respectively.

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

Management believes it is important to maintain a well controlled environment as we continue to grow our businesses. Sound credit policies are maintained and have resulted in declining nonperforming loans and net charge-offs as a percentage of loans outstanding from the prior period. Interest rate and market risks inherent in our asset and liability balances are managed within prudent ranges, while ensuring adequate liquidity and funding. Our stockholder value has continued to increase due to customer satisfaction and the balanced way we manage our business risk.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2005, equaled $8,220,000, compared to $7,653,000 in the same period of 2004. Diluted earnings per share were $.44, an increase of 7.3 percent from the $.41 reported for the third quarter 2004. The increase in earnings is primarily due to an increase in net interest margin, which is partially offset by an increase of the provision for loan losses during the period. These factors are discussed within the respective sections of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Net income for the nine months ended September 30, 2005, equaled $22,708,000, compared to $21,943,000 during the same period in 2004. Diluted earnings per share were $1.22, a 3.4 percent increase from the $1.18 reported in 2004. The increase in earnings is primarily due to an increase in net interest margin, which is partially offset by an increase of the provision for loan losses during the period. These factors are discussed within the respective sections of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Annualized returns on average assets and average stockholders' equity for the three months ended September 30, 2005, were 1.03 percent and 10.38 percent, respectively, compared with .98 percent and 9.88 percent for the same period of 2004.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations continued

RESULTS OF OPERATIONS (continued)

Annualized returns on average assets and average stockholders' equity for the nine months ended September 30, 2005 were .95 percent and 9.62 percent, respectively, compared with .95 percent and 9.50 percent for the same period of 2004.

CAPITAL

The Corporation's regulatory capital continues to exceed regulatory "well capitalized" standards. Tier I regulatory capital consists primarily of total stockholders' equity and subordinated debentures issued to business trusts categorized as qualifying borrowings, less non-qualifying intangible assets and unrealized net securities gains. The Corporation's Tier I capital to average assets ratio was 7.7 percent at September 30, 2005 and 7.5 percent at year end 2004. In addition, at September 30, 2005, the Corporation had a Tier I risk-based capital ratio of 9.8 percent and total risk-based capital ratio of 11.9 percent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 percent and a total risk-based capital ratio of 8.0 percent.

The Corporation's GAAP capital ratio, defined as total stockholders' equity to total assets, equaled 9.8 percent at September 30, 2005 and 9.9 percent at December 31, 2004. When the Corporation acquires other companies for stock, GAAP capital increases by the entire amount of the purchase price.

The Corporation's tangible capital ratio, defined as total stockholders' equity less intangibles net of tax to total assets less intangibles net of tax, equaled 6.0 percent as of September 30, 2005, and 5.9 percent at December 31, 2004.

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

	September 30,	December 31,

(Dollars in thousands)	2005	2004
Average Goodwill	$ 112,281	$ 112,281
Average Core Deposit Intangible (CDI)	19,382	22,164
Average Deferred Tax on CDI	(7,097)	(8,105)
Intangible Adjustment	$ 124,566	$ 126,340
Average Stockholders' Equity (GAAP Capital)	$ 314,856	$ 310,004
Intangible Adjustment	(124,566)	(126,340)
Average Tangible Capital	$ 190,290	$ 183,664
Average Assets	$ 3,185,815	$ 3,109,104
Intangible Adjustment	(124,566)	(126,340)
Average Tangible Assets	$ 3,061,249	$ 2,982,764
Net Income	$ 22,708	$ 29,411
CDI Amortization, net of tax	1,474	2,133
Tangible Net Income	$ 24,182	$ 31,544
Diluted Earnings per Share	$ 1.22	$ 1.58
Diluted Tangible Earnings per Share	$ 1.30	$ 1.69
Return on Average GAAP Capital	9.62%	9.49%
Return on Average Tangible Capital	16.94%	17.49%
Return on Average Assets	0.95%	0.95%
Return on Average Tangible Assets	1.05%	1.06%

ASSET QUALITY/PROVISION FOR LOAN LOSSES

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

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

At September 30, 2005, non-performing loans totaled $15,771,000, a decrease of $3,510,000 from December 31, 2004, as noted in Note 4. Loans and Allowance, included within the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

At September 30, 2005, impaired loans totaled $43,357,000, a decrease of $6,054,000 from December 31, 2004. At September 30, 2005, an allowance for losses was not deemed necessary for impaired loans totaling $34,818,000, but an allowance of $2,427,000 was recorded for the remaining balance of impaired loans of $8,538,000 and is included in the Corporation's allowance for loan losses.

At December 31, 2004, impaired loans totaled $49,411,000. An allowance for losses was not deemed necessary for impaired loans totaling $41,683,000, but an allowance of $1,673,000 was recorded for the remaining balance of impaired loans of $7,728,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for 2004 was $59,568,000.

At September 30, 2005, the allowance for loan losses was $25,149,000, an increase of $2,601,000 from year end 2004. As a percent of loans, the allowance was 1.03 percent at September 30, 2005 and .93 percent at December 31, 2004. The allowance for loan losses increased due to additional provision for loan losses expense recorded, which is discussed below.

The provision for loan losses for the first nine months of 2005 was $6,409,000, an increase of $1,937,000 from $4,472,000 for the same period in 2004. The Corporation's provision for loan losses increased primarily due to an increase in the five-year rolling historical loan charge-off ratio utilized within the Corporation's allowance for loan losses calculation.

LIQUIDITY

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

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

The most stable source of liability-funded liquidity for both the long-term and short-term is deposit growth and retention in the core deposit base. In addition, the Corporation utilizes advances from the Federal Home Loan Bank. ("FHLB") and a revolving line of credit with LaSalle Bank, N.A. as funding sources. At September 30, 2005, total borrowings from the FHLB were $231,448,000. The Corporation's bank subsidiaries have pledged certain mortgage loans and certain investments to the FHLB. The total available remaining borrowing capacity from the FHLB at September 30, 2005, was $90,126,000. At

September 30, 2005, the Corporation's revolving line of credit had a balance of $13,500,000 and a remaining borrowing capacity of $6,500,000.

The principal source of asset-funded liquidity is investment securities classified as available-for-sale, the market values of which totaled $424,818,000 at September 30, 2005, an increase of $8,641,000 or 2.1 percent over December 31, 2004. Securities classified as held-to-maturity that are maturing within a short period of time can also be a source of liquidity. Securities classified as held-to-maturity and that are maturing in one year or less totaled $1,053,000 at September 30, 2005. In addition, other types of assets such as cash and due from banks, federal funds sold and securities purchased under agreements to resell, and loans and interest-bearing deposits with other banks maturing within one year are sources of liquidity.

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

The Corporation provides customers with off-balance sheet credit support through loan commitments and standby letters of credit. Summarized credit-related financial instruments at September 30, 2005 are as follows:

(Dollars in thousands)	At September 30, 2005
Amounts of commitments:	
Loan commitments to extend credit	$ 546,209
Standby letters of credit	27,462
	$ 573,671

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

In addition to owned banking facilities, the Corporation has entered into a number of long-term leasing arrangements to support the ongoing activities of the Corporation. The required payments under such commitments and long-term debt at September 30, 2005 are as follows:

(Dollars in thousands)	2005 remaining	2006	2007	2008	2009	2010 and after	
Operating leases	$ 438	$ 1,515	$ 1,144	$ 880	$ 829	$ 2,286	$
Long-term debt	99,555	48,859	32,495	31,882	11,385	199,783	4
Total	$ 99,993	$ 50,374	$ 33,639	$ 32,762	$ 12,214	$202,069	$4

FIRST MERCHANTS CORPORATION

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INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK

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

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

Management believes that the Corporation's liquidity and interest sensitivity position at September 30, 2005, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

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

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

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

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

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(200) Basis Points
Federal Funds	200	(200)
One-Year CMT	200	(200)
Two-Year CMT	200	(200)
CD's	200	(91)
FHLB Advances	200	(200)

Results for the base, rising and falling interest rate scenarios are listed below, based upon the Corporation's rate sensitive assets and liabilities at August 31, 2005. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	BASE	RISING	FALLING
	(Dollars in thousands)		
Net Interest Income	$106,411	$110,914	$100,179
Variance from base		$ 4,504	$ (6,232)
Percent of change from base		4.2%	(5.9)%

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

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

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

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

FIRST MERCHANTS CORPORATION

FORM 10-Q

EARNING ASSETS

The following table presents the earning asset mix as of September 30, 2005, and December 31, 2004.

Loans increased approximately $8,641,000 from December 31, 2004 to September 30, 2005, and investment securities increased by approximately $15,259,000 during the same period. Real estate construction, real estate commercial and farmland, commercial and industrial loans, tax exempt loans and other loans increased approximately $48,419,000 during the first nine months of 2005 as compared to the balances outstanding at December 31, 2004. These increases were offset by a $30,880,000 decline in agricultural loans, residential real estate loans, leases and loans to individuals.

EARNING ASSETS (Dollars in thousands)	September 30, 2005	December 2004
Federal funds sold and interest-bearing time deposits	$ 10,708	$ 9,34
Investment securities available for sale	424,818	416,17
Investment securities held to maturity	11,976	5,35
Mortgage loans held for sale	5,026	3,36
Loans	2,443,931	2,428,05
Federal Reserve and Federal Home Loan Bank stock	23,165	22,85
Total	$2,919,624	$2,885,15

DEPOSITS AND BORROWINGS

The table below reflects the level of deposits and borrowed funds (federal funds purchased; repurchase agreements; Federal Home Loan Bank advances; and subordinated debentures, revolving credit lines and term loans) based on period ending amounts as of September 30, 2005 and December 31, 2004.

(Dollars in thousands)	September 30, 2005	December 31, 2004
Deposits	$2,465,293	$2,408,150
Federal funds purchased.........................	19,450	32,550
Securities sold under repurchase agreements......	70,605	87,472
Federal Home Loan Bank advances	231,448	223,663
Subordinated debentures, revolving credit lines and term loans..............................	102,456	97,206

	$2,889,252	$2,849,041

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

FIRST MERCHANTS CORPORATION

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NET INTEREST INCOME

Net Interest Income is the primary source of the Corporation's earnings. It is a function of net interest margin and the level of average earning assets. The table below presents the Corporation's asset yields, interest expense, and net interest income as a percent of average earning assets for the three and nine months ended September 30, 2005 and 2004.

During the nine months ended September 30, 2005, asset yields increased 44 basis points (FTE) and interest costs increased 37 basis points resulting in a seven basis point (FTE) increase in net interest income as compared to the same period in 2004. The improvement in margin was primarily a result of five 25 basis point overnight federal funds rate increases by the Federal Open Market Committee during this period. As a result, the Corporation's prime lending rates increased accordingly, while offsetting deposit rate increases were less significant.

	Three Months Ended September 30,		Nine Month Septembe
(Dollars in Thousands)	2005	2004	2005
Annualized Net Interest Income.......................	$ 112,560	$ 107,168	$ 110,670
Annualized FTE Adjustment............................	$ 3,781	$ 3,924	$ 3,723
Annualized Net Interest Income On a Fully Taxable Equivalent Basis................	$ 116,341	$ 111,092	$ 114,393
Average Earning Assets...............................	$2,908,431	$2,818,392	$2,891,142
Interest Income (FTE) as a Percent of Average Earning Assets..........................	6.40%	5.79%	6.15%
Interest Expense as a Percent of Average Earning Assets..........................	2.40%	1.85%	2.19%
Net Interest Income (FTE) as a Percent of Average Earning Assets..........................	4.00%	3.94%	3.96%

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

OTHER INCOME

Other income in the third quarter of 2005 was $369,000 or 4.4 percent higher than the same quarter of 2004. Most of the increase was related to an increase in fees for debit card usage.

Other income in the first nine months of 2005 was $705,000 or 2.7 percent higher than the same period of 2004.

Four items primarily account for the change:

1. Insurance commissions increased by $714,000, due to the receipt of larger profit sharing payments from insurance underwriters, as compared to the same period in 2004.

2. An increase of $542,000 in fees for debit card usage.

3. A cash payment was received of approximately $232,000, related to the Corporation's membership in a credit card network that was merged with another card network.

4. Gains on loan sales decreased by $697,000 or 32.4 percent from the same period in 2004 as stabilizing mortgage rates caused reduced volume from refinancing of mortgage loans.

OTHER EXPENSES

Total other expenses represent non-interest expenses of the Corporation. Total other expenses during the third quarter of 2005 increased from the third quarter of 2004 by $511,000 or 2.2 percent.

Other expense in the first nine months of 2005 was $2,755,000 or 4.1 percent higher than the same period in 2004.

Two areas account for most of the change:

1. A pension accounting loss, totaling approximately $1,630,000, recorded during the first quarter of 2005. The loss resulted from the curtailment of the accumulation of defined benefits in the Corporation's defined benefit pension plan.

2. In 2004, the Corporation reversed an accrual of $260,000 on a claim that was settled for less than the accrued amount causing a reduction in other expenses in the second quarter of 2004.

FIRST MERCHANTS CORPORATION

FORM 10-Q

INCOME TAXES

Income tax expense, for the nine months ended September 30, 2005, decreased by $20,000 from the same period in 2004. The effective tax rate was 30.0 and 30.8 percent for the 2005 and 2004 periods.

OTHER

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required under this item is included as part of Management's Discussion and Analysis of Financial Condition and Results of Operations, under the headings "LIQUIDITY" and "INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK".

Item 4. Controls and Procedures

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

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

FIRST MERCHANTS CORPORATION
FORM 10-Q
PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

a. On September 1, 2005, the Corporation issued 16,762 unregistered shares of its common stock pursuant to a Merger Agreement dated September 1, 2005, between the Corporation, First Merchants Insurance Services, Inc. and Trustcorp Financial Services of Greenville, Inc. ("Trustcorp"). The Corporation issued the unregistered shares to the shareholders of Trustcorp, at a value of $25.95 per share, in exchange for all the common stock of Trustcorp. The issuance by the Corporation of its shares of common stock were not registered under the Securities Act of 1933, as amended ("Securities Act"). The shares were issued pursuant to the exemption contemplated in Section 4 (2) of the Securities Act, for transactions not involving a public offering.

b. None

c. Issuer Purchases of Equity Securities

The following table presents information relating to the Corporation's purchases of its equity securities during the quarter ended September 30, 2005, as follows(1):

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF BOARD AUTHORIZATION(1)	MAX SHAR BE BOAR
07/01/05 - 07/31/05	5,967(2)	$26.67	0	
08/01/05 - 08/31/05	693(2)	$26.00	0	
09/01/05 - 09/30/05	0	0	0	

(1) On February 8, 2005, the Corporation's Board authorized management to repurchase up to 250,000 shares of the Corporation's Common Stock. On June 14, 2005 and August 9, 2005, the Corporation's Board authorized management to repurchase additional shares of the Corporation's Common Stock, totaling 6,500 and 243,500 shares, respectively. These authorizations were not publicly announced and expire February 14, 2006. There were 243,500 remaining shares that may yet be purchased pursuant to such authorizations as of September 30, 2005.

(2) All shares were purchased in connection with the exercise of certain outstanding options.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

a. None

b. None

FIRST MERCHANTS CORPORATION

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PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit No.:	Description of Exhibit:	Form 10-Q Page No.:
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	29
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	30
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	31

FIRST MERCHANTS CORPORATION

FORM 10-Q

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

First Merchants Corporation
(Registrant)

Date: November 9, 2005 by /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

Date: November 9, 2005 by /s/ Mark K. Hardwick

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

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX TO EXHIBITS

INDEX TO EXHIBITS

(a)3. Exhibits:

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EXHIBIT-31.1

FIRST MERCHANTS CORPORATION

FORM 10-Q
CERTIFICATIONS PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: November 9, 2005 /s/Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

EXHIBIT-31.2

FIRST MERCHANTS CORPORATION

FORM 10-Q
CERTIFICATIONS PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: November 9, 2005 /s/Mark K. Hardwick

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

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EXHIBIT-32

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

In connection with the quarterly report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Michael L. Cox, President and Chief Executive Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 9, 2005 by /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

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

In connection with the quarterly report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Mark K. Hardwick, Senior Vice President and Chief Financial Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 9, 2005

by /s/ Mark K. Hardwick

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

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