

First Merchants Corporation Announces 3rd Quarter Earnings Per Share

October 24, 2006

MUNCIE, Ind.--(BUSINESS WIRE)--

First Merchants Corporation (NASDAQ:FRME) has reported September 30, 2006 year-to-date diluted earnings per share totaling \$1.22, equaling 2005.

Third quarter diluted earnings per share totaled \$.42, a \$.02 decline from second quarter earnings per share of \$.44 in 2005. Net income for the quarter totaled \$7.7 million compared to \$8.2 million in 2005.

Total assets reached a record \$3.5 billion at quarter-end, an increase of \$233 million, or 7.2 percent from September 30, 2005. Loans and investments, the Corporation's primary earning assets, totaled \$3.1 billion, an increase of \$229 million or 8.0 percent over the prior year.

Net income declined by \$169,000 for the nine months ended September 30, 2006, reflecting the challenges of a sustained and increasingly inverted yield curve. Net-interest income declined by \$24,000 despite increases in earning assets as the Corporation's volume variance totaled a positive \$4,180,000 mitigated by a negative rate variance of \$4,204,000.

Non-interest income declined by \$745,000 resulting primarily from reduced gains from the sale of mortgage loans totaling \$668,000. Year-to-date operating expense increased by a modest 1.3 percent as management continues the process of streamlining its operating structure.

The allowance for loan losses has increased during the year by \$1.8 million as the Corporation's provision for loan losses declined by \$1.4 million. As of September 30, 2006, non-performing loans totaled 87 basis points of average total loans and the allowance for loan losses as a percent of total loans equaled 1.02 percent.

Michael L. Cox, President and Chief Executive Officer, stated that, "High single digit growth of loans and deposits coupled with expense management and talent acquisition continues to be the most positive representations of the controllable items in this business. Management is pleased with balance sheet growth, but the yield curve remains a challenge."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Daylight Time on Monday, October 23, 2006. To participate, dial (Toll Free) 877-407-9210 and reference First Merchants Corporation's third quarter earnings. A replay will be available until October 30, 2006. To access replay, US/Canada participants should dial (Toll Free) 877-660-6853 or for International participants, dial 201-612-7415. The replay will require the Account # 286 and Conference ID # 216501.

During the call we may make Forward Looking Statements about our relative business outlook. These Forward Looking Statements and all other statements made during the call that do not concern historical facts are subject to risks and uncertainties that may materially affect actual results.

Specific Forward Looking Statements include, but are not limited to, any indications regarding the Financial Services industry, the economy and future growth of the balance sheet or income statement.

Detailed financial results are reported on the attached pages:

First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana. Subsidiaries of the Corporation include First Merchants Bank, N.A., Madison Community Bank, N.A., United Communities National Bank, First National Bank, Decatur Bank & Trust Company, N.A., Frances Slocum Bank, N.A., Lafayette Bank & Trust Company, N.A., Commerce National Bank and First Merchants Trust Company, N.A. The Corporation also operates First Merchants Insurance Services, a full-service property casualty, personal lines, and healthcare insurance agency and is a majority member of Indiana Title Insurance Company, LLC, a title insurance agency.

First Merchants Corporation's common stock is traded over-the-counter on the NASDAQ National Market System under the symbol FRME. Quotations are carried in daily newspapers and can be found on the company's Internet web page (<http://www.firstmerchants.com>).

CONSOLIDATED BALANCE SHEETS

(in thousands)	September 30,	
	2006	2005
Assets		
Cash and due from banks	\$65,641	\$81,310
Interest-bearing time deposits	8,717	10,708
Investment securities	468,074	436,794
Mortgage loans held for sale	3,395	5,026
Loans	2,641,644	2,443,931
Less: Allowance for loan losses	(26,975)	(25,149)
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Net loans	2,614,669	2,418,782
Premises and equipment	40,511	38,473
Federal Reserve and Federal Home Loan Bank stock	23,620	23,165

Interest receivable	23,946	19,561
Core deposit intangibles and goodwill	136,666	139,597
Cash surrender value of life insurance	63,539	43,230
Other assets	23,261	21,792
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Total assets	\$3,472,039	\$3,238,438
	=====	=====
Liabilities		
Deposits		
Noninterest-bearing	\$324,601	\$346,318
Interest-bearing	2,369,690	2,118,975
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Total deposits	2,694,291	2,465,293
Borrowings	419,146	423,959
Interest payable	10,236	5,643
Other liabilities	26,075	25,153
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Total liabilities	3,149,748	2,920,048
Stockholders' equity		
Preferred stock, no-par value		
Authorized and unissued -- 500,000		
shares		
Common stock, \$.125 stated value		
Authorized -- 50,000,000 shares		
Issued and outstanding -- 18,334,811 and		
18,507,970 shares	2,292	2,313
Additional paid-in capital	143,688	148,004
Retained earnings	184,555	171,419
Accumulated other comprehensive loss	(8,244)	(3,346)
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Total stockholders' equity	322,291	318,390
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Total liabilities and stockholders' equity	\$3,472,039	\$3,238,438
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FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
NET CHARGE OFF'S	\$467	\$1,736	\$3,226	\$3,808
AVERAGE BALANCES				
Total Assets	\$3,424,504	\$3,202,198	\$3,328,120	\$3,185,815
Total Loans	2,613,805	2,444,131	2,541,589	2,429,530
Total Deposits	2,613,507	2,419,204	2,505,027	2,420,268
Total Stockholders' Equity	318,327	316,615	317,282	314,856

FINANCIAL RATIOS

Return on Average Assets	.90%	1.03%	.90%	.95%
Return on Avg. Stockholders' Equity	9.72	10.38	9.47	9.62
Avg. Earning Assets to Avg. Assets	91.26	90.83	91.25	90.75
Allowance for Loan Losses as % Of Total Loans	1.02	1.03	1.02	1.03
Net Charge Off's as % Of Avg. Loans (Annualized)	.07	.28	.17	.21

Dividend Payout Ratio	54.76	52.27	56.56	56.56
Avg. Stockholders' Equity to Avg. Assets	9.30	9.89	9.53	9.88
Tax Equivalent Yield on Earning Assets	7.08	6.40	6.87	6.15
Cost of Supporting Liabilities	3.42	2.40	3.09	2.19
Net Int. Margin (FTE) on Earning Assets	3.66	4.00	3.78	3.96

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data) Three Months Ended September 30, 2006 2005 Nine Months Ended September 30, 2006 2005

Interest income				
Loans receivable				
Taxable	\$48,738	\$40,853	\$137,475	\$116,506
Tax exempt	189	160	588	483
Investment securities				
Taxable	3,289	2,427	9,097	7,132
Tax exempt	1,645	1,595	4,905	4,702
Federal funds sold	13	51	41	190
Deposits with financial institutions	144	185	390	493
Federal Reserve and Federal Home Loan Bank stock	307	296	938	889
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Total interest income	54,325	45,567	153,434	130,395
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Interest expense				
Deposits	20,291	12,172	51,624	32,707
Federal funds purchased	635		1,749	
Securities sold under repurchase agreements	852	523	2,740	965
Federal Home Loan Bank advances	2,796	2,549	8,062	7,367
Subordinated debentures, revolving credit lines and term loans	2,067	1,894	6,078	5,522
Other borrowings	60	289	202	831
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Total interest expense	26,701	17,427	70,455	47,392
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Net interest income	27,624	28,140	82,979	83,003
Provision for loan losses	1,558	1,794	5,013	6,409
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Net interest income after provision for loan losses	26,066	26,346	77,966	76,594
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Other income				
Fiduciary activities	1,863	1,794	5,763	5,719
Service charges on deposit accounts	3,055	2,836	8,252	8,607
Other customer fees	1,386	1,389	4,130	3,662
Net realized gains on sales of available-for-sale securities		16		22
Commission income	971	870	3,421	3,131
Earnings on cash surrender				

value of life insurance	719	441	1,574	1,281
Net gains and fees on sales of loans	493	770	1,558	2,226
Other income	348	664	1,145	1,940
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Total other income	8,835	8,780	25,843	26,588
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Other expenses

Salaries and employee benefits	14,033	13,384	41,968	41,463
Net occupancy expenses	1,477	1,570	4,388	4,368
Equipment expenses	2,035	1,901	5,991	5,610
Marketing expense	586	446	1,424	1,387
Outside data processing fees	841	979	2,645	3,021
Printing and office supplies	367	328	1,095	969
Core deposit amortization	762	770	2,285	2,335
Other expenses	3,854	3,923	11,841	11,578
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Total other expenses	23,955	23,301	71,637	70,731
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Income before income tax	10,946	11,825	32,172	32,451
Income tax expense	3,207	3,605	9,633	9,743
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Net income	\$7,739	\$8,220	\$22,539	\$22,708
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Per Share Data

Basic Net Income	.42	.45	1.23	1.23
Diluted Net Income	.42	.44	1.22	1.22
Cash Dividends Paid	.23	.23	.69	.69
Average Diluted Shares Outstanding (in thousands)	18,381	18,590	18,455	18,606

CONSOLIDATED BALANCE SHEETS

(in thousands)	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31, 2005	Sept. 30, 2005
Assets					
Cash and due from banks	\$65,641	\$71,275	\$59,176	\$70,417	\$81,310
Interest-bearing time deposits	8,717	8,529	9,104	8,748	10,708
Investment securities	468,074	466,882	441,651	434,266	436,794
Mortgage loans held for sale	3,395	5,338	5,170	4,910	5,026
Loans	2,641,644	2,591,440	2,491,488	2,457,427	2,443,931
Less: Allowance for loan losses	(26,975)	(25,884)	(25,623)	(25,188)	(25,149)
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Net loans	2,614,669	2,565,556	2,465,865	2,432,239	2,418,782
Premises and equipment	40,511	41,122	39,029	39,417	38,473
Federal Reserve and Federal Home Loan Bank stock	23,620	23,889	23,421	23,200	23,165
Interest					

receivable	23,946	19,539	19,035	19,690	19,561
Core deposit intangibles					
and goodwill	136,666	137,429	138,174	138,833	139,597
Cash					
surrender value of life insurance	63,539	44,358	43,964	43,579	43,230
Other assets	23,261	24,346	25,346	21,780	21,792
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Total assets	\$3,472,039	\$3,408,263	\$3,269,935	\$3,237,079	\$3,238,438
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Liabilities					
Deposits					
Non- interest- bearing	\$324,601	\$340,046	\$325,548	\$314,335	\$346,318
Interest- bearing	2,369,690	2,195,354	2,120,524	2,068,241	2,118,975
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Total deposits	2,694,291	2,535,400	2,446,072	2,382,576	2,465,293
Borrowings	419,146	527,347	469,002	508,236	423,959
Interest payable	10,236	6,927	6,412	5,874	5,643
Other liabilities	26,075	25,585	31,711	26,997	25,153
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Total liabil- ities	3,149,748	3,095,259	2,953,197	2,923,683	2,920,048
Stockholders' equity					
Preferred stock, no- par value					
Authorized and unissued -- 500,000 shares					
Common stock, \$.125 stated value					
Authorized -- 50,000,000 shares					
Issued and out- standing	2,292	2,282	2,305	2,302	2,313
Additional paid-in capital	143,688	142,037	146,374	145,682	148,004
Retained earnings	184,555	181,042	177,975	174,717	171,419
Accumulated other compre- hensive loss	(8,244)	(12,357)	(9,916)	(9,305)	(3,346)
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Total □ stock- □ holders' □ equity	322,291	313,004	316,738	313,396	318,390
Total □ liabil- □ ities □ and □ stock- □ holders' □ equity	\$3,472,039	\$3,408,263	\$3,269,935	\$3,237,079	\$3,238,438
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NON-PERFORMING ASSETS

(in thousands)	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31, 2005	Sept. 30, 2005
90 days past due	\$4,253	\$8,818	\$5,188	\$3,965	\$3,560
Non-accrual □ loans	16,524	12,611	11,424	10,030	11,757
Other real estate	2,194	2,497	3,209	2,835	3,023
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Total □ non- □ performing □ assets	\$22,971	\$23,926	\$19,821	\$16,830	\$18,340
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Average total loans for the □ quarter	\$2,613,805	\$2,534,675	\$2,474,759	\$2,447,794	\$2,444,131
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Total non- performing □ assets as a percent of average total loans	.87%	.94%	.80%	.69%	.75%
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Restructured □ loans	\$93	\$111	\$114	\$310	\$454
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CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	Three Months Ended				
	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31, 2005	Sept. 30, 2005
Interest Income					
Loans receivable					
Taxable	\$48,738	\$45,658	\$43,079	\$41,930	\$40,853
Tax exempt	189	231	168	160	160
Investment □ securities □					
Taxable	3,289	3,082	2,726	2,480	2,427
Tax exempt	1,645	1,613	1,647	1,672	1,595
Federal funds sold	13	11	17	74	51
Deposits with financial □ institutions	144	132	114	202	185

Federal Reserve and Federal Home Loan Bank stock	307	320	311	296	296
Total [
interest [
income	54,325	51,047	48,062	46,814	45,567
Interest expense					
Deposits	20,291	16,914	14,419	13,414	12,172
Federal funds purchased	635	625	489	163	256
Securities sold under [
repurchase [
agreements	852	1,053	835	647	523
Federal Home Loan Bank advances	2,796	2,610	2,656	2,410	2,549
Subordinated [
debentures, [
revolving [
credit lines and term loans	2,067	2,020	1,991	1,910	1,894
Other borrowings	60	59	83	144	33
Total [
interest [
expense	26,701	23,281	20,473	18,688	17,427
Net interest income	27,624	27,766	27,589	28,126	28,140
Provision for loan losses	1,558	1,729	1,726	1,945	1,794
Net interest income after provision for loan losses	26,066	26,037	25,863	26,181	26,346
Other income					
Fiduciary [
activities	1,863	1,949	1,951	1,762	1,794
Service charges on deposit accounts	3,055	2,771	2,426	2,691	2,836
Other customer fees	1,386	1,389	1,355	1,432	1,389
Net realized gains (losses) on sales of available-for- [
sale securities		(9)	9	(24)	16
Commission [
income	971	946	1,504	690	870
Earnings on cash surrender value of life insurance	719	432	423	386	441
Net gains and fees on sales of loans	493	511	554	676	770
Other income	348	422	375	516	664

Total other income	8,835	8,411	8,597	8,129	8,780
Other expenses					
Salaries and employee benefits	14,033	13,543	14,392	12,596	13,384
Net occupancy expenses	1,477	1,477	1,434	1,428	1,570
Equipment expenses	2,035	2,007	1,949	1,952	1,901
Marketing expense	586	438	400	625	446
Outside data processing fees	841	921	883	989	979
Printing and office supplies	367	424	304	400	328
Core deposit amortization	762	761	762	767	770
Other expenses	3,854	4,323	3,664	4,469	3,923
Total other expenses	23,955	23,894	23,788	23,226	23,301
Income before income tax	10,946	10,554	10,672	11,084	11,825
Income tax expense	3,207	3,263	3,163	3,553	3,605
Net income	\$7,739	\$7,291	\$7,509	\$7,531	\$8,220
Per Share Data					
Basic Net Income	\$.42	\$.39	\$.41	\$.41	\$.45
Diluted Net Income	.42	.39	.41	.41	.44
Cash Dividends Paid	.23	.23	.23	.23	.23
Average Diluted Shares Outstanding (in thousands)	18,381	18,463	18,526	18,558	18,590
FINANCIAL RATIOS					
Return on Average Assets	.90%	.88%	.93%	.95%	1.03%
Return on Avg. Stockholders' Equity	9.72	9.20	9.49	9.49	10.38
Avg. Earning Assets to Avg. Assets	91.26	91.21	91.27	91.47	90.83
Allowance for Loan Losses as % Of Total Loans	1.02	1.00	1.03	1.02	1.03
Net Charge Off's as % Of Avg. Loans (Annualized)	.07	.23	.21	.31	.28
Dividend Payout					

Ratio	54.76	58.97	56.10	56.10	52.27
Avg. □ Stockholders' □ Equity to Avg. Assets	9.30	9.54	9.78	10.05	9.89
Tax Equivalent Yield on Earning Assets	7.08	6.87	6.64	6.62	6.40
Cost of Supporting □ Liabilities	3.42	3.07	2.77	2.59	2.40
Net Int. Margin (FTE) on Earning Assets	3.66	3.80	3.87	4.03	4.00

LOANS □

(in thousands)	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31, 2005	Sept. 30, 2005
Commercial and industrial □ loans	\$497,280	\$501,238	\$486,411	\$461,102	\$476,010
Agricultural □ production □ financing and other loans to farmers	104,147	95,352	87,433	95,130	94,262
Real estate loans: □					
Construction	175,753	178,254	175,784	174,783	171,667
Commercial □ and □ farmland	835,403	813,171	743,905	734,865	719,154
Residential	757,116	744,552	746,410	751,217	746,777
Individuals' □ loans for household and other personal expenditures	215,237	208,768	202,478	200,139	186,792
Tax exempt loans	16,550	13,656	13,656	8,263	12,439
Lease financing receivables, □ net of unearned □ income	8,543	8,589	8,193	8,713	9,538
Other loans	31,615	27,860	27,218	23,215	27,292
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	2,641,644	2,591,440	2,491,488	2,457,427	2,443,931
Allowance for loan losses	(26,975)	(25,884)	(25,623)	(25,188)	(25,149)
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Total □ loans	\$2,614,669	\$2,565,556	\$2,465,865	\$2,432,239	\$2,418,782
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DEPOSITS □

(in thousands)	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31, 2005	Sept. 30, 2005
Demand deposits	\$743,154	\$758,132	\$671,027	\$690,923	\$697,597
Savings □ deposits	512,112	510,878	526,554	566,212	568,366

Certificates [
and other time					
deposits of					
\$100,000 or					
more	394,724	313,751	320,213	264,665	320,640
Other [
certificates [
and time					
deposits	1,044,301	952,639	928,278	860,776	878,690
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	\$2,694,291	\$2,535,400	\$2,446,072	\$2,382,576	\$2,465,293
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Source: First Merchants Corporation

Contact: First Merchants Corporation Mark K. Hardwick, 765-751-1857 Executive Vice President/Chief Financial Officer
<http://firstmerchants.com>