FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

QUARTERLY RETORT UNDER SECTION 13 or 15 (d) of THE

SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2001 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 (I.R.S. Employer
incorporation of organization) Identification No.)

200 East Jackson Street - Muncie, IN 47305-2814

(Address of principal executive office) (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

As of October 31, 2001, there were 12,676,707 outstanding common shares, without par value, of the registrant.

This report including the cover page contains a total of 20 pages.

FIRST MERCHANTS CORPORATION

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FIRST MERCHANTS CORPORATION

FORM 10-Q
PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED BALANCE SHEET
(Dollars in thousands)
(Unaudited)

	September 30, 2001	December 31, 2000
ASSETS:		
Cash and due from banks	$ 46,149	$ 52,563
Federal funds sold	18,525	14,900
Cash and cash equivalents	64,674	67,463
Interest-bearing deposits	3,119	883
Investment securities available for sale	241,080	295,730
Investment Securities held to maturity	8,942	12,233
Mortgage loans held for sale	830	
Loans, net of allowance for loan losses of $14,907 and $12,454	1,346,731	1,163,132
Premises and equipment	27,184	23,868
Federal Reserve and Federal Home Loan Bank Stock	7,856	7,185
Interest receivable	13,556	13,135
Core deposit intangibles and goodwill	32,795	21,055
Cash surrender value of life insurance	6,387	6,312
Other assets	8,517	10,067
Total assets	$1,761,671	$1,621,063
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 163,689	$ 157,053
Interest-bearing	1,224,881	1,131,246
Total deposits	1,388,570	1,288,299
Borrowings	182,455	163,581
Interest payable	6,593	6,335
Other liabilities	6,468	6,785
Total liabilities	1,584,086	1,465,000
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 - 12,675,203 and 12,192,319 shares	1,584	1,524
Additional paid-in capital	50,817	41,592
Retained earnings	121,711	113,244
Accumulated other comprehensive income (loss)	3,473	(297)
Total stockholders' equity	177,585	156,063
Total liabilities and stockholders' equity	$1,761,671	$1,621,063

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENT OF INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Interest Income:				
Loans receivable				
Taxable	$27,152	$25,522	$77,322	$69,870
Tax exempt	106	76	310	224
Investment securities:				
Taxable	3,027	3,623	9,343	11,001
Tax exempt	1,032	1,175	3,083	3,444
Federal funds sold	109	28	404	276
Deposits with financial institutions	12	28	32	61
Federal Reserve and Federal Home Loan Bank stock	120	164	419	411
Total interest income	31,558	30,616	90,913	85,287
Interest expense:				
Deposits	11,670	13,028	35,817	35,713
Securities sold under repurchase agreements	817	1,129	2,665	3,181
Federal Home Loan Bank advances	1,715	1,691	4,836	3,662
Other Borrowings	94	354	373	1,254
Total interest expense	14,296	16,202	43,691	43,810
Net Interest Income	17,262	14,414	47,222	41,477
Provision for loan losses	1,023	603	2,371	1,747
Net Interest Income After Provision for Loan Losses	16,239	13,811	44,851	39,730
Net realized gains (losses) on available-for-sale securities	(167)	5	(167)	(180)
Other Income	4,798	4,374	13,809	12,363
Total other income	4,631	4,379	13,642	12,183
Total other expenses	11,980	10,193	32,959	29,481
Income before income tax	8,890	7,997	25,234	22,432
Income tax expense	2,870	2,722	8,834	7,334
Net Income	$ 6,020	$ 5,275	$16,700	$15,098
Per share:				
Net Income:(1)				
Diluted Cash Earnings	$ .49	$ .45	$ 1.42	$ 1.31
Basic Net Income	.48	.43	1.36	1.28
Diluted Net Income	.47	.43	1.35	1.27
Cash Dividends Paid	.23	.22	.67	.64

(1) Prior period per share earnings have been restated for the 5% stock dividend paid in September, 2001.

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Net Income	$ 6,020	$ 5,275	$ 16,700	$ 15,098
Other comprehensive income(loss), net of tax:				
Unrealized (losses) gains on securities available for sale:				
Unrealized holding (losses) gains arising during the period, net of income tax (expense) benefit of $(1,219), $(1,973), $(2,448), and $(715)	1,827	2,960	3,670	1,072
Less: Reclassification adjustment for gains (losses) included in net income, net of income tax (expense) benefit of $66, $(2), $66 and $72	(101)	3	(101)	(108)
	1,928	2,957	3,771	1,180
Comprehensive income	$ 7,948	$ 8,232	$ 20,471	$ 16,278

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY
(Dollar Amounts in thousands)
(Unaudited)

	2001	2000
Balances, January 1	$ 156,063	$ 126,296
Net income	16,700	15,098
Cash dividends	(8,233)	(7,644)
Other comprehensive income (loss), net of tax	3,771	1,180
Issuance of stock related to acquisition	14,601	21,173
Stock issued under employee benefits plans	504	648
Stock issued under dividend reinvestment and stock purchase plan	583	430
Stock options exercised	176	475
Stock Redeemed	(6,580)	(4,786)
Balances, September 30	$ 177,585	$ 152,870

See notes to consolidated condensed financial statements

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Cash Flows From Operating Activities:		
Net income	$ 16,700	$ 15,098
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	2,371	1,747
Depreciation and amortization	3,430	2,916
Securities amortization, net	(127)	36
Securities losses, net	167	180
Gains on sale of premises and equipment	(70)	(105)
Mortgage loans originated for sale	(14,285)	1,224
Proceeds from sales of mortgage loans	13,455	(1,163)
Change in interest receivable	982	(1,043)
Change in interest payable	(622)	1,206
Other adjustments	(981)	200
Net cash provided by operating activities	$ 21,020	$ 20,296
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	(2,236)	962
Purchases of		
Securities available for sale	(15,933)	(8,575)
Proceeds from maturities of		
Securities available for sale	82,347	36,292
Securities held to maturity	3,295	4,292
Proceeds from sales of		
Securities available for sale	770	12,440
Net change in loans	(51,465)	(76,849)
Purchase of FHLB stock	(98)	(716)
Purchases of premises and equipment	(1,256)	(3,497)
Proceeds from sale of fixed assets	162	448
Net cash received in acquisition	5,261	280
Net cash provided (used) by investing activities	20,847	(34,923)

(continued)

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	$ (21,959)	$ (12,739)
Certificates of deposit and other time deposits	(28,021)	(399)
Borrowings	18,874	(1,428)
Cash dividends	(8,233)	(7,644)
Stock issued under employee benefit plans	504	648
Stock issued under dividend reinvestment and stock purchase plan	583	430
Stock options exercised	176	475
Stock repurchased	(6,580)	(4,786)
Net cash provided (used) by financing activities	(44,656)	(25,443)
Net Change in Cash and Cash Equivalents	(2,789)	(40,070)
Cash and Cash Equivalents, January 1	67,463	84,293
Cash and Cash Equivalents, September 30	$ 64,674	$ 44,223

See notes to consolidated condensed financial statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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, except for the change in method of accounting or adoption of accounting pronouncements discussed more fully in Note 2. 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.

NOTE 2. Accounting Matters

Accounting for derivative instruments and hedging activities - During 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement requires companies to record derivatives on the balance sheet at their fair market value. Statement No. 133 also acknowledges that the method of recording a gain or loss depends on the use of the derivative.

The new Statement applies to all entities. If hedge accounting is elected by the entity, the method of assessing the effectiveness of the hedging derivative and the measurement approach of determining the hedge's ineffectiveness must be established at the inception of the hedge.

Statement No. 133 amends Statement No. 52 and supercedes Statements No. 80, 105 and 119. Statement No. 107 is amended to include the disclosure provisions about the concentrations of credit risk from Statement No. 105. Several Emerging Issues Task Force consensuses are also changed or nullified by the provisions of Statement No. 133.

Statement No. 133 was originally effective for all fiscal years beginning after June 15, 2000 and is not expected to have a material impact on the operations of the Corporation. The Statement may not be applied retroactively to financial statements of prior periods.

Statement No. 133 was adopted on July 1, 2000 and did not have a material impact on the operations of the Corporation.

NOTE 2. Accounting Matters (continued)

Impact of New Accounting Standards

Accounting for a Business Combination. Statement of Financial Accounting Standards ("SFAS") No. 141 requires that all business combinations should be accounted for using the purchase method of accounting; use of the pooling method is prohibited.

This Statement requires that goodwill be initially recognized as an asset in the financial statement and measured as the excess of the cost of an acquired entity over the net of the amounts assigned to identifiable assets acquired and liabilities assumed. In addition, SFAS No. 141 requires all other intangibles, such as core deposit intangibles for a financial institution, to be identified.

The provisions of Statement No. 141 are effective for any business combination that was initiated after June 30, 2001.

Accounting for Goodwill. Under the provisions of SFAS No. 142, goodwill should not be amortized but should be tested for impairment at the reporting unit level. Impairment test of goodwill should be done on an annual basis unless events or circumstances indicate impairment has occurred in the interim period. The annual impairment test can be performed at any time during the year as long as the measurement date is used consistently from year to year.

Impairment testing is a two step process, as outlined within the statement. If the fair value of goodwill is less than its carrying value, then the goodwill is deemed impaired and a loss recognized. Any impairment loss recognized as a result of completing the transitional impairment test should be treated as a change in accounting principle and recognized in the first interim period financial statements.

The provisions of Statement No. 142 would be effective for fiscal years beginning after December 15, 2001. A calendar year end company cannot adopt early and must wait until January 1, 2002. Goodwill and intangible assets acquired in a transaction completed after June 30, 2001 but before this Statement is initially applied would be accounted for in accordance with the amortization and nonamortization provisions of the Statement. The useful economic life of previously recognized intangible assets should be reassessed upon adoption of the Statement, and remaining amortization periods should be adjusted accordingly. Intangible assets deemed to have an indefinite life would no longer be amortized.

The Corporation will adopt these new accounting rules on January 1, 2002. As a result, the Corporation will not amortize the goodwill it has recorded prior to June 30, 2001, but will make an annual assessment of any impairment in goodwill and, if necessary, recognize an impairment loss at that time. The Corporation had goodwill of $26,457,000 at September 30, 2001 and amortization of $225,000 and $748,000 for the three and nine months ended September 30, 2001.

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

NOTE 3. Business Combinations

On July 1, 2001, the Corporation acquired Francor Financial, Inc., the holding company of Frances Slocum Bank & Trust Company. Frances Slocum Bank & Trust Company is a state chartered bank with branches located in eastcentral Indiana. Francor Financial, Inc. was merged into the Corporation, and Frances Slocum Bank & Trust Company will maintain its state charter as a subsidiary of First Merchants Corporation.

The combination was accounted for under the purchase method of accounting. Francor Financial Inc.'s results of operations are included in the Corporation's consolidated income statement beginning July 1, 2001. Shareholders of Francor Financial, Inc. on July 1, 2001, had the right to convert their shares into either 4.32 shares of the Corporation's common stock, or 2.59 shares of the Corporation's common stock and $48.70 in cash, or $121.74 in cash. The Corporation issued 677,972 shares of its common stock at a cost of $21.536 per share and $14,490,985 in cash to complete the transaction. The purchase had a recorded acquisition cost of $29,454,000 and goodwill of $7,907,000. Additionally, core deposit intangibles totaling $4,804,000 were recognized and will be amortized over 10 years using the 150% declining balance method.

All assets and liabilities were recorded at fair values as of July 1, 2001. The purchase accounting adjustments will be amortized over the life of the respective asset or liability.

The following proforma discloses including the effect of the purchase accounting adjustments, depict the results of operations as though the merger had taken place at the beginning of each period.

	Nine Months Ended September 30,	
	2001	2000
Net Interest Income:	$ 50,213	$ 46,226
Net Income:	16,045	16,338
Per share - combined:		
Diluted Cash Earnings	$ 1.32	$ 1.34
Basic Net Income	1.26	1.31
Diluted Net Income	1.25	1.30

On October 15, 2001, the Corporation signed a definitive agreement to acquire Lafayette Bancorporation, Lafayette, Indiana. The acquisition will be accounted for under the purchase method of accounting. Under the terms of the agreement, the Corporation will exchange 1.11 shares of the Corporation's common stock or $30.00 in cash for each of the outstanding shares of Lafayette Bancorporation. However, no more than $50,329,248 aggregate cash may be paid in the merger, and there may be allocations of stock to certain shareholders if this threshold is exceeded. The transaction is subject to approval by stockholders of Lafayette Bancorporation, and appropriate regulatory agencies. The Corporation anticipates amortizing core deposit intangibles over ten years. As of December 31, 2000, Lafayette Bancorporation had total assets and shareholders' equity of $741,147,000 and $52,801,000 respectively.

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

NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at September 30, 2001				
U.S. Treasury	$ 1,124	$ 6		$ 1,130
Federal agencies	28,221	880	$ (13)	29,088
State and municipal	78,830	2,208	(43)	80,995
Mortgage-backed securities	112,313	2,213		114,526
Other asset-backed securities	10,275	226		10,501
Corporate obligations	3,500	133		3,633
Marketable equity securities	1,316		(109)	1,207
Total available for sale	235,579	5,666	(165)	241,080
Held to maturity at September 30, 2001				
State and municipal	8,688	198	(29)	8,857
Mortgage-backed securities	254			254
Total held to maturity	8,942	198	(29)	9,111
Total investment securities	$244,521	$ 5,864	$ (194)	$250,191

(Table dollar amounts in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2000:				
U.S. Treasury	$ 2,997			$ 2,997
Federal agencies	55,403	$ 268	$ 155	55,516
State and municipal	81,370	1,045	103	82,312
Mortgage-backed securities	127,907	139	922	127,124
Other asset-backed securities	19,924	10	148	19,786
Corporate obligations	7,238	9	395	6,852
Marketable equity securities	1,277		134	1,143
Total available for sale	296,116	1,471	1,857	295,730
Held to maturity at December 31, 2000:				
U.S. Treasury	250			250
State and municipal	11,645	131	36	11,740
Mortgage-backed securities	338			338
Total held to maturity	12,233	131	36	12,328
Total investment securities	$308,349	$ 1,602	$ 1,893	$308,058

FIRST MERCHANTS CORPORATION

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

NOTE 5. Loans and Allowance

	September 30, 2001	December 31, 2000
Loans:		
Commercial and industrial loans	$ 290,838	$ 258,405
Agricultural production financing and other loans to farmers	34,786	24,547
Real estate loans:		
Construction	57,949	45,412
Commercial and farmland	220,624	167,317
Residential	530,653	466,660
Individuals' loans for household and other personal expenditures	206,492	201,629
Tax-exempt loans	7,912	6,093
Other loans	12,384	5,523
Total	$ 1,361,638	$ 1,175,586

	Nine Months Ended September 30, 2001	2000
Allowance for loan losses:		
Balances, January 1	$ 12,454	$ 10,128
Allowance acquired in acquisition	2,085	1,413
Provision for losses	2,371	1,747
Recoveries on loans	464	461
Loans charged off	(2,467)	(1,517)
Balances, September 30	$ 14,907	$ 12,232

NOTE 6. Net Income Per Share

	Three Months Ended September 30, 2001			2000		
	Income	Weighted-Average Shares	Per Share Amount	Income	Weighted-Average Shares	Per Share Amount
Basic net income per share:						
Net income available to common stockholders	$ 6,020	12,711,385	$ .48	$ 5,275	12,273,134	$ .43
Effect of dilutive stock options		92,632			75,937	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions	$ 6,020	12,804,017	$ .47	$ 5,275	12,349,071	$ .43

	Nine Months Ended September 30,					
	2001			2000		
	Income	Weighted-Average Shares	Per Share Amount	Income	Weighted-Average Shares	Per Share Amount
Basic net income per share:						
Net income available to common stockholders	$ 16,700	12,306,708	$ 1.36	$ 15,098	11,790,275	$ 1.28
Effect of dilutive stock options		83,434			82,117	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions	$ 16,700	12,390,142	$ 1.35	$ 15,098	11,872,392	$ 1.27

FIRST MERCHANTS CORPORATION

FORM 10-Q

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

The Corporation's financial data for periods prior to mergers accounted for as pooling of interests has been restated.

Forward-Looking Statements

Congress passed the Private Securities Litigation Report Act of 1995 to encourage corporations to provide investors with information about the company's anticipated future financial performance, goals, and strategies. The act anticipated future financial performance, goals, and strategies. The act provides a safe harbor for such disclosure, or in other words, protection from unwarranted litigation if actual results are not the same as management's expectations.

First Merchants Corporation desires to provide its shareholders with sound information about past performance and future trends. Consequently, this Quarterly Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that are subject to numerous assumptions, risks, and uncertainties. Actual results could differ materially from those contained in or implied by First Merchants Corporation's statements due to a variety of factors including: changes in economic conditions; movements in interest rates; competitive pressures on product pricing and services; success and timing of business strategies; the successful integration of acquired businesses; the nature and extent of governmental actions and reform; and extended disruption of vital infrastructure. The management of First Merchants Corporation encourages readers of this report to understand forward-looking statements to be strategic objectives rather than absolute targets of future performance.

Results of Operations

Net income for the three months ended September 30, 2001, was $6,020,000, compared to $5,275,000 earned in the same period of 2000. Diluted earnings per share were $.47 an increase of $.04 over the $.43 reported for the first quarter 2000.

Net income for the nine months ended September 30, 2001, was $16,700,000, compared to $15,098,000 during the same period in 2000. Diluted earnings per share were $1.35, a 6.3% increase over $1.27 in 2000.

Cash basis earnings per share for the quarter increased 8.9% to $.49 up $.04 from $.45. Year to date cash basis earnings per share increased 8.4% to $1.42 from $1.31 in 2000.

Annualized returns on average assets and average shareholder's equity for nine months ended September 30, 2001 were 1.35 percent and 13.66 percent, respectively, compared with 1.32 percent and 14.61 percent for the same period of 2000.

Capital

The Corporation's capital strength continues to exceed regulatory minimums and peer group averages. Management believes that strong capital is a distinct advantage in the competitive environment in which the Corporation operates and will provide a solid foundation for continued growth.

The Corporation's Tier I capital to average assets ratio was 8.7 percent at year-end 2000 and 8.1 percent at September 30, 2001. At September 30, 2001, the Corporation had a Tier I risk-based capital ratio of 11.0 percent and total risk-based capital ratio of 12.1 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. Banks with Tier I risk-based capital ratios of 6.0 percent and total risk-based capital ratios of 10.0 percent are considered "well capitalized." All of the Banks remain "well capitalized" as of September 30, 2001.

Asset Quality/Provision for Loan Losses

The Corporation's asset quality and loan loss experience have consistently been superior to that of its peer group, as summarized on the following page. Asset quality has been a major factor in the Corporation's ability to generate consistent profit improvement.

The allowance for loan losses is maintained through the provision for loan losses, which is a charge against earnings.

The amount provided for loan losses and the determination of the adequacy of the allowance are based on a continuous review of the loan portfolio, including an internally administered loan "watch" list and an independent loan review provided by an outside accounting firm. The evaluation takes into consideration identified credit problems, as well as the possibility of losses inherent in the loan portfolio that cannot be specifically identified.

The following table summarizes the risk elements for the Corporation.

(Dollars in Thousands)	September 30, 2001	December 31, 2000
Non-accrual loans	$3,330	$2,370
Loans contractually past due 90 days Or more other than nonaccruing	2,978	2,465
Restructured loans	2,886	3,085
Total	$9,194	$7,920

At September 30, 2001, non-performing loans totaled $9,194,000, an increase of $1,274,000 from December 31, 2000.

At December 31, 2000, impaired loans totaled $14,839,000. An allowance for losses was not deemed necessary for impaired loans totaling $6,977,000, but an allowance of $2,253,000 was recorded for the remaining balance of impaired loans of $7,862,000. The average balance of impaired loans for 2000 was $15,053,000.

At September 30, 2001, the allowance for loan losses increased by $2,453,000, to $14,907,000, up from year end 2000. The increase was primarily due to the allowance acquired in the acquisition of Francor Financial, Inc., which totaled $2,085,000. As a percent of loans, the allowance was 1.09 percent, up from 1.06 percent at year end 2000.

For the nine months ended September 30, 2001, the provision totaled $2,371,000. The provision was $624,000 more than the $1,747,000 provision from the comparable period in 2000, primarily due to the general downturn in the economy and an increase in non-performing loans. Net charge offs amounted to $2,003,000 during the nine months ended September 30, 2001.

The third quarter 2001 provision of $1,023,000 increased $420,000 from $603,000 for the same quarter in 2000, primarily due to the general downturn in the economy and an increase in non-performing loans. Net charge offs amounted to $706,000 during the quarter.

	Nine Months Ended September 30,	
	2001	2000
	(Dollars in Thousands)	
Balance at beginning of period	$12,454	$10,128
Allowance acquired in acquisition	2,085	1,413
Chargeoffs	(2,467)	(1,517)
Recoveries	464	461
Net chargeoffs	(2,003)	(1,056)
Provision for loan losses	2,371	1,747
Balance at end of period	$14,907	$12,232
Ratio of net chargeoffs during the period to average loans outstanding during the period - annualized	.21%	.13%

Liquidity, 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 ensure that changes in interest rates will not adversely 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.

The Corporation's liquidity and interest sensitivity position at March 31, 2001, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

First Merchants Corporation believes the March 31, 2001, data, on the following page, materially reflects the Corporation's interest sensitivity position on September 30, 2001. This data is presented rather than September 30, 2001 information, as the Corporation is currently in process of converting and revising its software utilized for modeling and reporting purposes. Upon completion of this process, the September 30, 2001 results for the flat, rising (rate shock), and falling (rate shock) interest scenarios will be presented in an amendment to the September 30, 2001, Form 10-Q filing.

The Corporation places its greatest credence in net interest income simulation modeling. The GAP/Interest Rate Sensitivity Report is known 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.

The Corporation's asset liability process monitors simulated net interest income under three separate interest rate scenarios; rising (rate shock), falling (rate shock) and base case (flat rates). Net Interest income is simulated over a 12-month horizon. By policy, the difference between the best performing and the worst performing rate scenarios are not allowed to show a variance greater than 5 percent.

Assumed interest rate changes are simulated to move incrementally over 12 months. The total rate movement (beginning point minus ending point) to noteworthly interest rate indexes are as follows:

	Rising	Falling
Prime	200 Basis Points	(200) Basis Points
Federal Funds	200	(200)
90 Day T-Bill	200	(200)
One Year T-Bill	200	(200)
Three Year T-Note	200	(200)
Five Year T-Note	200	(200)
Ten Year T-Note	200	(200)
Interest Checking	67	(67)
MMIA Savings	200	(200)
Money Market Index	200	(200)
Regular Savings	67	(67)

Results for the flat, rising (rate shock), and falling (rate shock) interest scenarios are listed below. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions are the same under all scenarios:

	Base Case Flat Rates	Rising	Falling
Net Interest Income (Dollars in Thousands)	$61,027	$59,570	$60,376
Change vs. Base Case		(1,457)	(651)
Percent Change		(2.39)%	(1.07)%
Policy Limitation		(5.00)%	(5.00)%

Earning Assets

The following table presents the earning asset mix as of September 30, 2001, and December 31, 2000, and December 31, 1999.

Loans grew by over $186 million from December 31, 2000 to September 30, 2001, which included $134.5 million of loans acquired as part of the Francor Financial, Inc. acquisition. Investment securities declined by $57.9 million during the same period. Commercial and industrial loans increased by more than $32 million, while individuals' loans for household and personal expenditures increased by nearly $4.9 million.

EARNING ASSETS (Dollars in Millions)	September 30, 2001	December 31, 2000	December 31, 1999
Federal funds sold and interest-bearing deposits	$ 21.6	$ 15.8	$ 27.1
Investment securities available for sale	241.1	295.7	329.7
Investment securities held to maturity	8.9	12.2	14.3
Mortgage loans held for sale	.8		
Loans	1,361.6	1,175.6	998.9
Federal Reserve and Federal Home Loan Bank stock	7.9	7.2	5.8
Total	$ 1,641.9	$ 1,506.5	$ 1,375.8

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 nine months ended September 30, 2001 and 2000.

Annualized net interest income (FTE) for the nine months ended September 30, 2001 increased by $7,472,000, or 12.9 percent over the same period in 2000, due to an increase in average earning assets of over $109 million.

(Dollars in Thousands)	Interest Income (FTE) as a Percent of Average Earning Assets	Interest Expense as a Percent of Average Earning Assets	Net Interest Income (FTE) as a Percent of Average Earning Assets	Average Earning Assets	Annualized Net Interest Income On a Fully Taxable Equivalent Basis
For the three months Ended September 30,					
2001	7.79%	3.46%	4.33%	$1,652,318	$71,526
2000	8.20%	4.24%	3.96%	$1,527,890	$60,486

(Dollars in Thousands)	Interest Income (FTE) as a Percent of Average Earning Assets	Interest Expense as a Percent of Average Earning Assets	Net Interest Income (FTE) as a Percent of Average Earning Assets	Average Earning Assets	Annualized Net Interest Income On a Fully Taxable Equivalent Basis
For the nine months Ended September30,					
2001	8.00%	3.77%	4.23%	$1,545,820	$65,408
2000	8.10%	4.07%	4.03%	$1,436,429	$57,936

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.

Other Income

The Corporation has placed emphasis on the growth of non-interest income in recent years by offering a wide range of fee-based services. Fee schedules are regularly reviewed by a pricing committee to ensure that the products and services offered by the Corporation are priced to be competitive and profitable.

Other income in the third quarter of 2001 exceeded the same quarter in the prior year by $424,000, or 9.7 percent.

Two major areas account for most of the increase:

1. Service charges on deposit accounts increased $265,000 or 21.4 percent due to increased number of accounts and price adjustments.

2. Gains on sale of mortgage loans increased by $240,000 due to declining interest rates and increased mortgage volume.

Other income in the first nine months of 2001 exceeded the same period in the prior year by $1,446,000, or 11.7 percent.

Three major areas account for most of the increase:

1. Service charges on deposit accounts increased $618,000 or 17.7 percent due to increased number of accounts and price adjustments.

2. Revenues from fiduciary activities increased $366,000 or 9.8 percent due primarily to increased sales efforts of First Merchants Insurance Services, Inc.

3. Gains on sale of mortgage loans increased by $592,000 due to declining interest rates and increased mortgage volume.

Other Expense

Total other expenses represent non-interest operating expenses of the Corporation. Other expense during the third quarter of 2001 exceeded the same period of the prior year by $1,787,000, or 17.5 percent.

Three major areas account for most of the increase:

1. Salaries and benefit expense grew $971,000 or 17.7 percent, due to normal salary increases and staff additions.

2. Processing expense increased by $123,000 or 17.8 percent, due to an increased volume of activity.

3. Other outside services expense increased by $114,000, primarily attributed to an increased use of such services.

Total other expense during the first nine months in 2001 exceeded the same period of the prior year by $3,478,000, or 11.8 percent.

Three major areas account for most of the increase:

1. Salaries and benefit expense grew $1,971,000 or 12.2 percent, due to normal salary increases and staff additions.

2. Goodwill amortization increased by $604,000, due to utilization of the purchase method of accounting for the Corporation's June 1, 2000 acquisition of Decatur Bank & Trust Company.

3. Equipment expense grew $265,000 or 23.2%, due to decisions made to maintain and repair equipment items, rather than purchasing new equipment.

Income Taxes

Income tax expense during the third quarter totaled $2,870,000, an increase of $148,000 over the $2,722,000 reported in the same quarter of 2000.

Income tax expense, for the nine months ended September 30, 2001, increased by $1,500,000 over the same period in 2000.

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 under the heading Liquidity, Interest Sensitivity, and Disclosures About Market Risk.

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

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

None

Item 6. Exhibits and Reports on Form 8-K

None

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 11/14/01	by /s/ Michael L. Cox Michael L. Cox President and Chief Executive Officer
Date 11/14/01	by /s/ James L. Thrash James L. Thrash Chief Financial & Principal Accounting Officer

- -----END PRIVACY-ENHANCED MESSAGE-----