FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 1996

Commission File Number 0-17071

First Merchants Corporation
(Exact name of registrant as specified in its character)

Indiana	35-1544218
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

200 East Jackson Street - Muncie, IN	47305-2814
(Address of principal executive office)	(Zip code)

(317) 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 August 5, 1996, there were outstanding 6,023,829 common shares, without par value, of the registrant.

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

	June 30, 1996	December 31, 1995
ASSETS:		
Cash and due from banks	$ 31,106	$ 31,432
Federal funds sold	15,100	37,500
Cash and cash equivalents	46,206	68,932
Interest-bearing deposits with financial institutions		155
Securities available for sale	145,992	143,120
Securities held to maturity	51,015	58,214
Mortgage Loans held for sale		736
Loans:		
Loans	439,926	418,994
Less: Allowance for loan losses	(4,919)	(4,957)
Net loans	435,007	414,037
Premises and equipment	10,467	10,476
Federal Reserve and Federal Home Loan Bank stock	2,029	1,892
Interest receivable	6,244	6,187
Core deposit intangibles and goodwill	1,780	1,845
Others assets	5,469	2,265
Total assets	$704,209	$707,859
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 82,777	$ 99,432
Interest-bearing	491,448	488,724
Total deposits	574,225	588,156
Short-term borrowings	41,611	33,975
Federal Home Loan Bank advance		1,000
Interest payable	1,786	1,866
Other liabilities	4,086	2,389
Total liabilities	621,708	627,386
STOCKHOLDERS' EQUITY:		
Preferred stock, no-par value:		
Authorized and unissued -- 500,000 shares		
Common stock, $.125 stated value:		
Authorized --- 20,000,000 shares		
Issued and outstanding -- 5,065,470 and 5,053,901 shares	633	632
Additional paid-in capital	16,132	15,852
Retained earnings	65,971	62,836
Net unrealized gain (loss) on securities available for sale	(235)	1,153
Total stockholders' equity	82,501	80,473
Total liabilities and stockholders' equity	$704,209	$707,859

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED BALANCE SHEET
(Dollar amounts in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	1996	1995	1996	1995
Interest Income:				
Loans, including fees:				
Taxable.	$ 9,646	$ 9,425	$ 19,197	$ 18,362
Tax exempt	14	27	27	45
Securities:				
Taxable.	2,202	2,048	4,464	4,060
Tax exempt	652	618	1,288	1,163
Federal funds sold	111	277	322	319
Interest-bearing deposits with financial institutions	1	1	3	1
Federal Reserve and Federal Home Loan Bank stock	39	39	75	73
Total interest income . . .	12,665	12,435	25,376	24,023
Interest Expense:				
Deposits.	4,957	4,944	10,118	9,002
Short-term borrowings	518	490	1,029	1,093
Federal Home Loan Bank advance. . . .	14	1	29	1
Total interest expense . .	5,489	5,435	11,176	10,096
Net Interest Income	7,176	7,000	14,200	13,927
Provision for loan losses	160	160	320	320
Net Interest Income After Provision For Loan Losses	7,016	6,840	13,880	13,607
Other Income:				
Net realized gains (losses) on sale of available for sale securities.	10	(76)	20	(66)
Other income	1,795	1,644	3,590	3,277
Total other income	1,805	1,568	3,610	3,211
Total other expenses.	4,858	4,591	9,546	9,303
Income before income tax.	3,963	3,817	7,944	7,515
Income tax expense.	1,383	1,288	2,785	2,595
Net Income.	$ 2,580	$ 2,529	$ 5,159	$ 4,920
Per share:				
Net income (1).	$ .51	$ .50	$ 1.02	$ .97
Dividends (1)	.20	.19	.40	.38
Weighted average shares outstanding (1)	5,059,199	5,055,723	5,062,259	5,053,478

(1) Restated for 3-for-2 stock split distributed October, 1995.

See notes to consolidated financial statements.

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CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollar amounts in thousands)
(Unaudited)

	1996	1995
Balances, January 1	$80,473	$71,018
Net income	5,159	4,920
Cash dividends	(2,024)	(1,887)
Net change in unrealized gain (loss) on securities available for sale	(1,388)	2,579
Stock issued under dividend reinvestment and stock purchase plan	235	201
Stock options exercised	46	187
Stock redeemed		(392)
Balances, June 30	$82,501	$76,626

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Six Months Ended June 30 1996	Six Months Ended June 30 1995
Cash Flows From Operating Activities:		
Net income	$ 5,159	$ 4,920
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	320	320
Depreciation and amortization	619	592
Securities amortization, net	194	499
Mortgage loans originated for sale	(464)	(600)
Proceeds from sale of mortgage loans	1,212	604
Change in interest receivable	83	(442)
Change in interest payable	(80)	368
Other adjustments	(505)	(233)
Net cash provided by operating activities	6,538	6,028
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits with financial institutions	155	(46)
Purchases of:		
Securities available for sale	(59,472)	(34,036)
Securities held to maturity	(18,186)	(14,851)
Proceeds from maturities of:		
Securities available for sale	50,508	7,991
Securities held to maturity	25,288	18,419
Proceeds from sales of securities available for sale	3,551	11,196
Net change in loans	(21,601)	(18,046)
Purchases of premises and equipment	(611)	(920)
Other investing activities	142	118
Net cash used by investing activities	(20,226)	(30,175)
Cash Flows From Financing Activities:		
Net change in:		
Noninterest-bearing, NOW, money market and savings deposits	(14,451)	(2,423)
Certificates of deposit and other time deposits	520	34,821
Short-term borrowings	7,636	13,685
Federal Home Loan Bank advance	(1,000)	
Cash dividends	(2,024)	(1,887)
Stock issued under dividend reinvestment and stock purchase plan	235	201
Stock options exercised	46	187
Stock redeemed		(392)
Net cash provided (used) by financing activities	(9,038)	44,192
Net Increase (Decrease) in Cash and Cash Equivalents	(22,726)	20,045
Cash and Cash Equivalents, January 1	68,932	46,359
Cash and Cash Equivalents, June 30	$46,206	$66,404

See notes to consolidated condensed financial statements.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollar amounts in thousands, except per share amounts)
(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, except for the changes in methods of accounting discussed more fully in Note 2. All adjustments which 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 financial statements.

NOTE 2. Change in Methods of Accounting

Statement of Financial Accounting Standards ("SFAS") No. 123, Stock-Based Compensation, is effective for the Corporation for 1996. This statement establishes a fair value based method of accounting for stock-based compensation plans. The Corporation intends to account for stock-based compensation as prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees.

NOTE 3. Acquisitions

On January 17, 1996, the Corporation signed a definitive agreement to acquire all of the outstanding shares of Randolph County Bancorp, Winchester, Indiana. Under terms of the agreement which has been approved by Randolph County Bancorp shareholders, the Corporation will issue approximately 566,000 shares of its common stock. The transaction will be accounted for under the pooling of interests method of accounting and is subject to approval by appropriate regulatory agencies. Although the corporation anticipates that the merger will be consummated during the third quarter of 1996, there can be no assurance that the acquisition will be completed. At December 31, 1995, Randolph County Bancorp had total assets and stockholders' equity of $73,333,000 and $8,867,000, respectively.

On July 31, 1996, the Corporation issued 942,685 shares of its common stock in exchange for all of the outstanding shares of Union National Bancorp, Liberty, Indiana (Union National). At December 31, 1995, Union National had total assets and shareholders' equity of $161,078,000 and $15,741,000, respectively. The transaction will be accounted for under the pooling of interests method of accounting. The financial information contained herein does not reflect the merger. Pro forma unaudited results of operations assuming the merger had occurred on January 1, 1995, are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	1996	1995	1996	1995
Net interest income.	$8,458	$8,132	$16,726	$16,174
Net income	3,028	2,849	5,975	5,594
Net income per share	.50	.47	1.00	.93

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(Table dollar amounts in thousands)
(Unaudited)

NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at June 30, 1996:				
U.S. Treasury	$ 12,227	$ 11	$ 83	$ 12,155
Federal agencies	68,394	381	447	68,328
State and municipal	22,067	227	106	22,188
Mortgage and other asset-backed securities	20,278	63	259	20,082
Corporate obligations	23,165	71	247	22,989
Marketable equity security	250			250
Total available for sale	146,381	753	1,142	145,992
Held to maturity at June 30, 1996:				
U.S. Treasury	850	1	10	841
Federal agencies	8,100	28	23	8,105
State and municipal	37,741	253	94	37,900
Mortgage and other asset-backed securities	4,324	18		4,342
Total held to maturity	51,015	300	127	51,188
Total investment securities	$197,396	$ 1,053	$ 1,269	$ 197,180

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 1995:				
U.S. Treasury	$ 4,531	$ 26	$ 3	$ 4,554
Federal agencies	67,518	1,299	72	68,745
State and municipal	18,769	398	37	19,130
Mortgage and other asset-backed securities	24,023	210	121	24,112
Corporate obligations	26,120	264	55	26,329
Marketable equity security	250			250
Total available for sale	141,211	2,197	288	143,120
Held to maturity at December 31, 1995:				
U.S. Treasury	3,103	8	2	3,109
Federal agencies	11,645	69	21	11,693
State and municipal	40,013	483	57	40,439
Mortgage and other asset-backed securities	2,953	8		2,961
Corporate obligations	500		1	499
Total held to maturity	58,214	568	81	58,701
Total investment securities	$ 199,425	$ 2,765	$ 369	$ 201,821

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

NOTE 5. Loans and Allowance

	June 30, 1996	December 31, 1995
Loans:		
Commercial and industrial loans	$ 98,670	$ 85,690
Bankers' acceptances and loans to financial institutions	1,465	2,925
Agricultural production financing and other loans to farmers	6,414	5,796
Real estate loans:		
Construction	10,864	9,913
Commercial and farmland	67,665	66,749
Residential	173,284	166,414
Individuals' loans for household and other personal expenditures	79,711	79,993
Tax-exempt loans	917	863
Other loans	936	651
Total loans	$439,926	$418,994

	Six Months Ended June 30	
	1996	1995
Allowance for loan losses:		
Balances, January 1	$4,957	$ 4,998
Provision for losses	320	320
Recoveries on loans	105	94
Loans charged off	(463)	(316)
Balances, June 30	$4,919	$ 5,096

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

RESULTS OF OPERATIONS

The Corporation has recorded 20 consecutive years of growth in operating earnings per share, reaching $1.95 in 1995, an increase of 8.3 per cent over 1994.

Return on assets, which exceeded 1 per cent for the first time in 1988, rose to 1.48 per cent in 1995, from 1.44 per cent in 1994, and 1.39 per cent in 1993.

Return on equity, which exceeded 12 per cent for the first time in 1989, was 13.01 per cent in 1993, 13.06 per cent in 1994, and 12.97 in 1995.

Following are the levels achieved in each of these ratios during the first half of 1996, as compared to the same period in 1995.

- Earnings per share were $1.02, up 5.2 per cent from $.97

- Return on assets was 1.51 per cent decreasing from 1.53 per cent

- Return on equity totaled 12.67 per cent compared to 13.34 per cent for the first half of 1995

CAPITAL

First Merchants 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, and instilling customer confidence. First Merchants Corporation and its subsidiaries have received honors from various financial rating services recognizing the Banks for safety and soundness. Earnings asset quality and capital strength were considered in the ratings.

The Corporation's capital to assets ratio was 11.02 per cent at December 31, 1994, 11.37 per cent at December 31, 1995, and 11.93 per cent at March 31, 1996. At June 30, 1996, the Corporation had a Tier I risk-based capital ratio of 17.34 per cent, total risk-based capital ratio of 18.39 per cent and a leverage ratio of 11.88 per cent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 per cent and a total risk-based capital ratio of 8.0 per cent.

The Corporation has an employee stock purchase plan and an employee stock option plan. Activity under this program is detailed in the Consolidated Condensed Statement of Changes in Stockholders' Equity. The transactions under these plans have not had a material effect in the Corporation's capital position.

ASSET QUALITY/PROVISION FOR LOAN LOSSES

First Merchants Corporation's asset quality and loan loss experience has consistently been superior to that of its peer group, as summarized below. Asset quality has been a major factor in the Corporation's ability to generate consistent profit improvement. The increase in non-performing loans from December 1, 1995 to June 30, 1996 is primarily attributable to two loans placed in non-accrual status during the first half. Management is in the process of resolving these loan situations and anticipates that no material losses will occur.

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 First Merchants Corporation and its peer group, consisting of bank holding companies with average assets between $500 million and $1 billion. The statistics were provided by the Federal Reserve System.

	Non-Performing Loans (1) at December 31 as a Per Cent of Loans	
	First Merchants Corporation	Peer Group
1996 (June 30)	.94%	N/A
1995	.16	.91%
1994	.26	1.01
1993	.30	1.55
1992	.41	1.85
1991	.86	2.54

(1) Accruing loans past due 90 days or more, and non-accruing loans, but excluding restructured loans.

On June 30, 1996, the loan loss reserve stood at $4,919,000. As a per cent of loans, the reserve stood at 1.12 per cent compared to 1.18 per cent at year end 1995, and 1.24 per cent at year end 1994. The provision for loan losses for the first half of 1996 remained at $320,000 equal to the same period of 1995. The Corporation adopted SFAS No. 114 and No. 118, Accounting by Creditors for Impairment of a Loan and Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures on January 1, 1995. Impaired loans totaled $3,122,000 at December 31, 1995. An allowance for losses at December 31, 1995, was not deemed necessary for impaired loans totaling $1,900,000, but an allowance of $559,000 was recorded for the remaining balance of impaired loans of $1,222,000. The balance of impaired loans has not changed significantly since December 31, 1995.

The following table presents loan loss experience for the years indicated and compares the Corporation's loss experience to its peer group (table dollar amounts in thousands).

	1996 (1)	1995	1994	1993	1992
Allowance for loan losses:					
Balance at January 1	$4,957	$4,998	$4,800	$4,351	$3,867
Chargeoffs:					
Commercial	101	586	526	391	588
Real estate mortgage			41	129	100
Installment	362	296	346	388	552
Total chargeoffs	463	882	913	908	1,240
Recoveries:					
Commercial	41	89	216	240	215
Real estate mortgage	5	4	30	5	38
Installment	59	108	83	98	114
Total recoveries	105	201	329	343	367
Net chargeoffs	358	681	584	565	873
Provision for loan losses	320	640	782	1,014	1,357
Balance at December 31	$4,919	$4,957	$4,998	$4,800	$4,351
Ratio of net chargeoffs during the period to average loans outstanding during the period	.17%(2)	.16%	.15%	.16%	.26%
Peer Group	N/A	.26%	.25%	.49%	.65%

(1) Through June 30, 1996
(2) Annualized

LIQUIDITY AND INTEREST SENSITIVITY

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.

First Merchants Corporation's liquidity and interest sensitivity position at June 30, 1996, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk. The table below represents the Corporation's interest rate sensitivity analysis as of June 30, 1996 (table dollar amounts in thousands).

	Interest-Rate Sensitivity Analysis At June 30, 1996				
	1-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
Rate-sensitive assets:					
Federal funds sold and interest-bearing deposits with financial institutions	$ 15,100				$ 15,100
Investment securities	30,528	$27,328	$128,632	$ 10,519	197,007
Loans	230,703	40,876	116,211	52,136	439,926
Federal Reserve and Federal Home Loan Bank stock	1,722			307	2,029
Total rate-sensitive assets	278,053	68,204	244,843	62,962	654,062
Rate-sensitive liabilities:					
Interest-bearing deposits	213,124	42,829	235,425	70	491,448
Short-term borrowing	41,611				41,611
Total rate-sensitive liabilities	254,735	42,829	235,425	70	533,059
Periodic rate sensitivity gap	$ 23,318	$25,375	$ 9,418	$ 62,892	
Cumulative rate sensitivity gap	23,318	48,693	58,111	121,003	
Cumulative rate sensitivity gap ratio					
June 30, 1996	109%	116%	111%	123%	
December 31, 1995	117%	128%	113%	126%	

EARNING ASSETS

Earning assets increased $76.4 million during 1995 but declined $6.6 million during the first half of 1996.

The following table presents the earning asset mix for the years ended 1994, 1995 and at June 30, 1996 (table dollar amounts in millions).

	Earning Assets		
	June 30, 1996	December 31, 1995	December 31, 1994
Federal funds sold and interest-bearing deposits with financial institutions	$ 15.1	$ 37.7	$ 3.7
Securities available for sale	146.0	143.1	99.3
Securities held to maturity	51.0	58.2	77.7
Mortgage loans held for sale		.7	
Federal Reserve and Federal Home Loan Bank stock	2.0	1.9	1.9
Loans	439.9	419.0	401.6
Total	$654.0	$660.6	$584.2

DEPOSITS AND BORROWINGS

The following tables present the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements with customers, U.S. Treasury demand notes, and Federal Home Loan Bank advance) based on period end levels and average daily balances for the past two years and the six month period ended June 30, 1996 (table dollar amounts in thousands).

	Period End Balance		
	Deposits	Short-term Borrowing	Federal Home Loan Bank Advance
June 30, 1996	$574,225	$41,611	
December 31, 1995	588,156	33,975	$1,000
December 31, 1994	529,830	39,189	

	Average Balances		
	Deposits	Short-term Borrowing	Federal Home Loan Bank Advance
June 30, 1996	$555,362	$39,577	$ 940
December 31, 1995	538,539	44,799	515
December 31, 1994	514,029	45,639	

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 interest income, interest expense, and net interest income as a per cent of average earning assets for the four-year period ending in 1995 and the first half of 1996. (Table dollar amounts in thousands.)

Asset yields improved .71 per cent in 1995, while interest expense increased .81 per cent. The resulting "spread" decrease of .10 per cent (4.64% vs 4.74%) was offset by a $32.7 million increase in average earning assets, enabling fully taxable equivalent net interest income to increase by $963,000.

During the first six months of 1996, interest income (FTE) grew $572,000 on an annualized basis due to growth in average earning assets of $12.5 million. Net interest income (FTE) as a per cent of earning assets remained level with the prior year as yields (FTE) and expenses both declined by .03 per cent of average earning assets.

The Corporation does consider the effect of changing rates in its loan and deposit pricing and structure decisions, and in its investment strategy; and expects no significant change in net interest income as a result of interest rate changes.

	Interest Income (FTE) as a Per Cent of Average Earning Assets	Interest Expense as a Per Cent of Average Earning Assets	Net Interest Income (FTE) as a Per Cent of Earning Assets	Average Earning Assets	Net Interest Income on a Fully Taxable Equivalent Basis
1996(1)	8.12%	3.48%	4.64%	$642,301	$29,817
1995	8.15	3.51	4.64	629,784	29,245
1994	7.44	2.70	4.74	597,102	28,282
1993	7.38	2.81	4.57	587,009	26,806
1992	8.31	3.65	4.66	566,467	26,400

(1) First six months annualized.

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 reached $6,907,000 in 1995, exceeding the prior year by $609,000 or 9.7 per cent. Major factors include:

1. A $205,000 (8.0 per cent) increase in trust revenues.
2. A gain of $205,000 on the sale of approximately $8,000,000 of the Corporation's student loans.

Other income in the first six months of 1996 amounted to $3,610,000 or 12.4 per cent higher than the first six months of 1995. $369,000 of the increase of $399,000 is attributable to four factors:

1. Trust revenues increased $104,000 (8.1 per cent).
2. Deposit service charges increased $99,000 (8.1 per cent).
3. Interchange fees for the Corporation's credit and debit card programs grew by $80,000 (55.9 per cent) due to increased product offerings.
4. The Corporation recorded securities gains of $20,000 compared to losses of $66,000 last year, an increase of $86,000.

OTHER EXPENSE

Total "other expenses" represent non-interest operating expenses of the Corporation. Those expenses amounted to $18,842,000 in 1995, an increase of 2.2 per cent from the prior year.

Salary and benefit expenses, which account for over one-half of the Corporation's non-interest operating expenses, increased by $510,000 (5.1 per cent). Increases in occupancy, equipment, printing and office supplies and advertising expenses totaling $449,000 were offset by a $530,000 reduction in the cost of deposit insurance and by a refund of $238,000 from the State of Indiana for intangibles taxes paid in 1988 and 1989.

First half 1996 expenses of $9,546,000 were $243,000 or 2.6 per cent above the same period of 1995. The following table details the change in "Other Expense".

1996 "Other Expense" Compared to 1995
(through June 30)

1. Salary and benefit expense increased 4.2 per cent	$228,000
2. Various other operating expenses increased	351,000
3. FDIC deposit insurance premiums declined	(574,000)
4. 1995 "other expense" included a refund from the State of Indiana for taxes paid in 1988 and 1989. This served to reduce 1995 "Other Expense".	238,000
Net Change	$243,000

INCOME TAXES

The increase in 1995 tax expense was attributable to a $1,241,000 increase in pre-tax net income.

During the first half of 1996, income tax expense grew $190,000 from the same period one year earlier, primarily due to a $429,000 increase in pre-tax net income.

The following is a breakdown, by year, of federal and state income taxes (table dollar amounts in thousands).

	Six Months Ended June 30,		Twelve Months Ended December 31,	
	1996	1995	1995	1994
Federal taxes	$2,103	$1,976	$4,146	$3,735
State taxes	682	619	1,302	1,172
Total	$2,785	$2,595	$5,448	$4,907

INFLATION

Changing prices of goods, services and capital affect the financial position of every business enterprise. The level of market interest rates and the price of funds loaned or borrowed fluctuate due to changes in the rate of inflation and various other factors, including government monetary policy.

Fluctuating interest rates affect First Merchants' net interest income, loan volume, and other operating expenses, such as employees' salaries and benefits, reflecting the effects of escalating prices, as well as increased levels of operations and other factors. As the inflation rate increases, the purchasing power of the dollar decreases. Those holding fixed rate monetary assets incur a loss while those holding fixed rate monetary liabilities enjoy a gain. The nature of a bank holding company's operations is such that there will be an excess of monetary assets over monetary liabilities and, thus, a bank holding company will tend to suffer from an increase the rate of inflation and benefit from a decrease.

PART II. OTHER INFORMATION

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

The 1996 Annual Meeting of Stockholders was held on April 4, 1996. Shareholders voted upon the election of directors and the ratification of the independent auditor. No other matters were voted upon at the Annual Meeting.

Item 6. Exhibits and Reports on Form 8-K

(a) No exhibits are required to be filed.

(b) No reports were filed on Form 8-K during the quarter ended June 30, 1996.

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 August 12, 1996	by	/s/ Stefan S. Anderson
		Stefan S. Anderson President and Director
Date August 12, 1996	by	/s/ James L. Thrash
		James L. Thrash Chief Financial & Principal Accounting Officer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED BALANCE SHEET (PAGE 3), CONSOLIDATED CONDENSED STATEMENT OF INCOME (PAGE 4), AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS
DEC-31-1996
JAN-01-1996
JUN-30-1996
31,106
0
15,100
0
145,992
51,015
51,188
439,926
4,919
704,209
574,225
41,611
5,872
0
0
0
633
81,868
704,209
19,224
5,752
400
25,736
10,118
11,176
14,200
320
20
9,546
7,944
5,159
0
0
5,159
1.02
1.02
0
0
0
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