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 March 31, 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 May 6, 1996, there were outstanding 5,062,069 common shares, without par value, of the registrant.

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX

		Page No.
PART I.	Financial information:	
Item 1.	Financial Statements:	
	Consolidated Condensed Balance Sheet.	3
	Consolidated Condensed Statement of Income.	4
	Consolidated Condensed Statement of Changes in Stockholders' Equity.	5
	Consolidated Condensed Statement of Cash Flows.	6
	Notes to Consolidated Condensed Financial Statements. . . .	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
PART II.	Other Information:	
Item 4.	Submission of Matters to a Vote of Security Holders	19
Item 6.	Exhibits and Reports of Form 8-K.	19
Signatures	. . . .	20

FIRST MERCHANTS CORPORATION

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

	March 31, 1996	December 31, 1995
ASSETS:		
Cash and due from banks	$ 21,196	$ 31,432
Federal funds sold	13,300	37,500
Cash and cash equivalents	34,496	68,932
Interest-bearing deposits with financial institutions	142	155
Securities available for sale	146,915	143,120
Securities held to maturity	53,372	58,214
Mortgage Loans held for sale		736
Loans:		
Loans, net of unearned interest	427,672	418,994
Less: Allowance for loan losses	(4,947)	(4,957)
Net loans	422,725	414,037
Premises and equipment	10,345	10,476
Federal Reserve and Federal Home Loan Bank stock	1,892	1,892
Interest receivable	5,901	6,187
Core deposit intangibles and goodwill	1,813	1,845
Others assets	3,669	2,265
Total assets	$681,270	$707,859
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 73,199	$ 99,432
Interest-bearing	483,269	488,724
Total deposits	556,468	588,156
Short-term borrowings	36,594	33,975
Federal Home Loan Bank advance	1,000	1,000
Interest payable	1,907	1,866
Other liabilities	4,045	2,389
Total liabilities	600,014	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 -- 5,060,661 and 5,053,901 shares	633	632
Additional paid-in capital	16,009	15,852
Retained earnings	64,403	62,836
Net unrealized gain on securities available for sale	211	1,153
Total stockholders' equity	81,256	80,473
Total liabilities and stockholders' equity	$681,270	$707,859

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 March 31 1996	Three Months Ended March 31 1995
Interest Income:		
Loans, including fees:		
Taxable	$ 9,551	$ 8,937
Tax exempt	13	18
Investment securities:		
Taxable	2,262	2,012
Tax exempt	636	545
Federal funds sold	211	42
Interest-bearing deposits with financial institutions	2	
Federal Reserve and Federal Home Loan Bank stock	36	34
Total interest income	12,711	11,588
Interest expense:		
Deposits	5,161	4,058
Short-term borrowings	511	603
Federal Home Loan Bank advance	15	
Total interest expense	5,687	4,661
Net Interest Income	7,024	6,927
Provision for loan losses	160	160
Net Interest Income After Provision For Loan Losses	6,864	6,767
Other Income:		
Securities gains, net	10	10
Other income	1,795	1,633
Total other income	1,805	1,643
Total other expenses	4,688	4,712
Income before income tax	3,981	3,698
Income tax expense	1,402	1,307
Net Income	$ 2,579	$ 2,391
Per share:		
Net income (1)	$ .51	$ .47
Dividends (1)	.20	.19
Weighted average shares outstanding (1)	5,056,140	5,051,232

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

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollar amounts in thousands)

(Unaudited)

	1996	1995
Balances, January 1	$80,473	$71,018
Net income	2,579	2,391
Cash dividends	(1,012)	(944)
Net change in unrealized gain (loss) on securities available for sale	(942)	1,089
Stock issued under dividend reinvestment and stock purchase plan	124	104
Stock options exercised	34	25
Balances, March 31	$81,256	$73,683

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31 1996	1995
Cash Flows From Operating Activities:		
Net income	$ 2,579	$ 2,391
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	160	160
Depreciation and amortization	308	289
Securities amortization, net	26	251
Mortgage loans originated for sale	(108)	(98)
Proceeds from sales of mortgage loans	853	97
Change in interest receivable	436	183
Change in interest payable	41	207
Other adjustments	850	920
Net cash provided by operating activities	5,145	4,400
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits with financial institutions	13	(28)
Purchases of:		
Securities available for sale	(47,550)	(13,766)
Securities held to maturity	(16,526)	(7,340)
Proceeds from maturities and sales of:		
Securities available for sale	42,194	1,794
Securities held to maturity	21,354	12,754
Net change in loans	(8,922)	(3,314)
Purchases of premises and equipment	(178)	(618)
Other investing activities	(43)	52
Net cash used by investing activities	(9,658)	(10,466)
Cash Flows From Financing Activities:		
Net change in:		
Noninterest-bearing, NOW, money market and savings deposits	(36,743)	(30,036)
Certificates of deposit and other time deposits	5,055	22,554
Short-term borrowings	2,619	(2,240)
Cash dividends	(1,012)	(944)
Stock issued under dividend reinvestment and stock purchase plan	124	104
Stock options exercised	34	25
Net cash used by financing activities	(29,923)	(10,537)
Net Decrease in Cash and Cash Equivalents	(34,436)	(16,603)
Cash and Cash Equivalents, January 1	68,932	46,359
Cash and Cash Equivalents, March 31	$ 34,496	$ 29,756

See notes to consolidated condensed financial statements.

FORM 10-Q
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(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, 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 stockholders of Randolph County Bancorp and 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 January 24, 1996, the Corporation signed a definitive agreement to acquire all of the outstanding shares of Union National Bancorp, Liberty, Indiana. Under terms of the agreement, the Corporation will issue approximately 943,000 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 stockholders of Union National Bancorp and appropriate regulatory agencies. Although the Corporation anticipates that the merger will be consummated during the second or third quarter of 1996, there can be no assurance that the acquisition will be completed. At December 31, 1995, Union National Bancorp had total assets and stockholders' equity of $161,078,000 and $15,741,000, respectively.

(Table dollar amounts in thousands)

NOTE 4. INVESTMENT SECURITIES

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at March 31, 1996:				
U.S. Treasury.	$ 12,271	$ 14	$ 46	$ 12,239
Federal agencies	65,949	633	278	66,304
State and municipal.	20,821	273	80	21,014
Mortgage and other asset-backed securities.	22,550	110	189	22,471
Corporate obligations.	24,725	108	196	24,637
Marketable equity security	250			250
Total available for sale	146,566	1,138	789	146,915
Held to maturity at March 31, 1996:				
U.S. Treasury.	2,350	3	8	2,345
Federal agencies	8,123	44	22	8,145
State and municipal.	38,322	323	89	38,556
Mortgage and other asset-backed securities.	4,077	3		4,080
Corporate obligations.	500			500
Total held to maturity	53,372	373	119	53,626
Total investment securities. . .	$199,938	$1,511	$908	$200,541

(Table dollar amounts in thousands)

	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

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

NOTE 5. LOANS AND ALLOWANCE

	March 31, 1996	December 31, 1995
Loans:		
Commercial and industrial loans	$ 96,713	$ 85,690
Bankers' acceptances and loans to financial institutions	4,175	2,925
Agricultural production financing and other loans to farmers.	5,045	5,796
Real estate loans:		
Construction	9,695	9,913
Commercial and farmland	65,834	66,749
Residential.	167,583	166,414
Individuals' loans for household and other personal expenditures	77,039	79,993
Tax-exempt loans.	814	863
Other loans	774	651
Total loans	$427,672	$418,994

	Three Months Ended March 31 1996	1995
Allowance for loan losses:		
Balances, January 1	$ 4,957	$ 4,998
Provision for losses.	160	160
Recoveries on loans	55	53
Loans charged off	(225)	(139)
Balances, March 31.	$ 4,947	$ 5,072

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 quarter of 1996, as compared to the same period in 1995.

- Earnings per share were $.51, up 8.5 per cent from $.47
- Return on assets was 1.51 per cent decreasing from 1.52 per cent
- Return on equity totaled 12.75 per cent compared to 13.22 per cent for the first quarter 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 March 31, 1996, the Corporation had a Tier I risk-based capital ratio of 17.76 per cent, total risk-based capital ratio of 18.86 per cent and a leverage ratio of 11.71 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 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. 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 (March 31)	.89%	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 March 31, 1996, the loan loss reserve stood at $4,947,000. As a per cent of loans, the reserve stood at 1.16 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 quarter of 1996 remained at $160,000 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.	58	586	526	391	588
Real estate mortgage			41	129	100
Installment	167	296	346	388	552
Total chargeoffs . . .	225	882	913	908	1,240
Recoveries:					
Commercial.	16	89	216	240	215
Real estate mortgage. . .	4	4	30	5	38
Installment	35	108	83	98	114
Total recoveries . . .	55	201	329	343	367
Net chargeoffs	170	681	584	565	873
Provision for loan losses. .	160	640	782	1,014	1,357
Balance at December 31 . . .	$4,947	$4,957	$4,998	$4,800	$4,351
Ratio of net chargeoffs during the period to average loans outstanding during the period.	.16%(2)	.16%	.15%	.16%	.26%
Peer Group	N/A	.26%	.25%	.49%	.65%

(1) Through March 31, 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 March 31, 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 March 31, 1996 (table dollar amounts in thousands).

Interest-Rate Sensitivity Analysis

	At March 31, 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	$ 13,442				$ 13,442
Investment securities	34,134	$ 26,657	$127,718	$ 11,778	200,287
Loans	224,216	44,681	108,478	50,297	427,672
Federal Reserve and Federal Home Loan Bank stock	1,585			307	1,892
Total rate-sensitive assets	273,377	71,338	236,196	62,382	643,293
Rate-sensitive liabilities:					
Interest-bearing deposits	218,657	41,333	223,209	70	483,269
Short-term borrowing	36,344	250			36,594
Federal Home Loan Bank advance	1,000				1,000
Total rate-sensitive liabilities	256,001	41,583	223,209	70	519,863
Periodic rate sensitivity gap	$ 17,376	$ 29,955	$ 12,987	$ 62,312	
Cumulative rate sensitivity gap	17,376	47,131	60,118	122,430	
Cumulative rate sensitivity gap at March 31, 1996	107%	116%	112%	124%	
Cumulative rate sensitivity gap at December 31, 1995	117%	128%	113%	126%	

EARNING ASSETS

Earning assets increased $76.4 million during 1995 but declined $17.3 million during the first quarter of 1996. Growth over the fifteen month period occurred in loans and securities with short term investments declining.

The following table presents the earning asset mix for the years ended 1994, 1995 and at March 31, 1996 (table dollar amounts in millions).

	Earning Assets		
	March 31, 1996	December 31, 1995	December 31, 1994
Federal funds sold and interest-bearing deposits with financial institutions. . . .	$ 13.4	$ 37.7	$ 3.7
Securities available for sale.	146.9	143.1	99.3
Securities held to maturity.	53.4	58.2	77.7
Mortgage loans held for sale		.7	
Federal Reserve and Federal Home Loan Bank stock	1.9	1.9	1.9
Loans.	427.7	419.0	401.6
Total	$643.3	$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 most recent quarter (table dollar amounts in thousands).

	Period End Balance		
	Deposits	Short-term Borrowings	Federal Home Loan Bank Advance
March 31, 1996.	$556,468	$ 36,594	$ 1,000
December 31, 1995	588,156	33,975	1,000
December 31, 1994	529,830	39,189	

	Average Balances		
	Deposits	Short-term Borrowings	Federal Home Loan Bank Advance
March 31, 1996.	$554,669	$ 38,565	$ 1,000
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 quarter 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 quarter of 1996, interest income (FTE) grew $251,000 on an annualized basis due to growth in average earning assets of $10.6 million.

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)	8.16%	3.55%	4.61%	$640,418	$29,496
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 quarter 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 quarter of 1996 was $1,805,000 or 9.9 per cent higher than the first quarter of 1995. Interchange fees for the Corporation's credit and debit card programs doubled, growing by $68,000 due to expanded product offerings, and trust fees grew by $43,000 or 6.7 per cent.

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 quarter 1996 expenses of $4,688,000 were $24,000 or 0.5 per cent below the same quarter of 1995. Increases in salary and benefit expense ($120,000 or 4.7 per cent) and premises and equipment expense ($73,000 or 10.7 per cent) were offset by a $286,000 decrease in deposit insurance premiums.

INCOME TAXES

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

During the first quarter of 1996, income tax expense grew $95,000 from the same period one year earlier, also due to a $283,000 increase in pre-tax net income.

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

	Three Months Ended March 31,		Twelve Months Ended December 31,	
	1996	1995	1995	1994
Federal taxes	$1,049	$ 982	$4,146	$3,735
State taxes	353	325	1,302	1,172
Total	$1,402	$1,307	$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 March 31, 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 May 10, 1996 by /s/ Stefan S. Anderson

Stefan S. Anderson
President and Director

Date May 10, 1996 by /s/ James L. Thrash

James L. Thrash
Chief Financial & Principal
Accounting Officer

9

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

3-MOS
DEC-31-1996
JAN-01-1996
MAR-31-1996
21,196
142
13,300
0
146,915
53,372
53,626
427,672
4,947
681,270
556,468
36,594
6,952
0
0
0
633
80,623
681,270
9,564
2,898
249
12,711
5,161
5,687
7,024
160
10
4,688
3,981
2,579
0
0
2,579
.51
.51
0
0
0
0
0
0
0
0
0
0
0
0