

	Page
Part I	
Item 1 - Business.....	3
Item 2 - Properties.....	19
Item 3 - Legal Proceedings.....	19
Item 4 - Submission of Matters to a Vote of Security Holders.....	19
Supplemental Information - Executive Officers of the Registrant.....	20
Part II	
Item 5 - Market For the Registrant's Common Equity and Related Stockholder Matters.....	21
Item 6 - Selected Financial Data.....	21
Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.....	21
Item 8 - Financial Statements and Supplementary Data.....	21
Item 9 - Changes In and Disagreements With Accountants on Accounting and Financial Disclosures.....	21
Part III	
Item 10 - Directors and Executive Officers of the Registrant.....	22
Item 11 - Executive Compensation.....	22
Item 12 - Security Ownership of Certain Beneficial Owners and Management.....	22
Item 13 - Certain Relationships and Related Transactions.....	22
Part IV	
Item 14 - Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....	23
Signatures.....	25
Index to Exhibits.....	27

PART I

ITEM 1. BUSINESS.

GENERAL

First Merchants Corporation (the "Corporation") was incorporated under Indiana law on September 20, 1982, as the bank holding company for First Merchants Bank, National Association ("First Merchants"), a national banking association incorporated in 1893. Prior to December 16, 1991, First Merchants' name was The Merchants National Bank of Muncie. On November 30, 1988, the Corporation acquired Pendleton Banking Company ("Pendleton"), a state chartered commercial bank organized in 1872. On July 31, 1991, the Corporation acquired First United Bank ("First United"), a state chartered commercial bank organized in 1882. On August 1, 1996, the Corporation acquired The Union County National Bank of Liberty ("Union National"), a national banking association incorporated in 1872. On October 2, 1996, the Corporation acquired The Randolph County Bank ("Randolph County"), a state chartered commercial bank founded in 1865.

After the holding company was formed in 1982, the Corporation's practice was to appoint each of the outside directors of First Merchants as a director of the Corporation. However, as the Corporation grew through acquisition of four other financial institutions, it became apparent that increased separation of the operation and direction of the Corporation and First Merchants would be desirable, and that this objective was hindered by the substantial overlap in the composition of the two Boards of Directors. Therefore, the Corporation's Board appointed an AD HOC Committee on Board Structure to review the structure and makeup of the two Boards. The Committee's report and recommendations, including a plan to restructure the respective Boards effective as of January 1, 1997, were unanimously adopted by the Boards of both the Corporation and First Merchants on December 10, 1996. As a result of the restructuring, six of the directors who were serving on both Boards became directors of First Merchants only, and five of the directors who were serving on both Boards became directors of the Corporation only. The size of the Corporation's Board was reduced from eighteen to twelve members, and the size of the First Merchants' Board was reduced from fifteen to ten members.

As of December 31, 1996, the Corporation had consolidated assets of \$968.0 million, consolidated deposits of \$794.5 million and stockholders' equity of \$112.7 million.

The Corporation is headquartered in Muncie, Indiana, and is presently engaged in conducting commercial banking business through the 23 offices of its five banking subsidiaries. As of December 31, 1996, the Corporation and its subsidiaries had 452 full-time equivalent employees.

Through its subsidiaries, the Corporation offers a broad range of financial services, including: accepting time and transaction deposits; making consumer, commercial, agri-business and real estate mortgage loans; issuing credit cards; renting safe deposit facilities; providing personal and corporate trust services; and providing other corporate services, letters of credit and repurchase agreements.

ACQUISITION POLICY AND PENDING TRANSACTIONS

The Corporation anticipates that it will continue its policy of geographic expansion through consideration of acquisitions of additional financial institutions. Management of the Corporation periodically engages in reviewing and analyzing potential acquisitions.

At the present time, management of the Corporation is not actively engaged in discussions or negotiations with other financial institutions regarding their affiliation with the Corporation.

COMPETITION

The Corporation's banking subsidiaries are located in Delaware, Madison, Fayette, Wayne, Union, Randolph and Henry counties, Indiana. In addition to the competition provided by the lending and deposit gathering subsidiaries of national manufacturers, retailers, insurance companies and investment brokers, the banking subsidiaries compete vigorously with other banks, thrift institutions, credit unions and finance companies located within their service areas.

SUPERVISION AND REGULATION

The Corporation is a bank holding company ("BHC") subject to regulation under the Bank Holding Company Act of 1956, as amended (the "Act"). The Act generally requires a BHC to obtain prior approval of the Federal Reserve Board (the "FRB") to acquire or hold more than a 5% voting interest in any bank. The Act restricts the non-banking activities of BHCs to those which are closely related to banking activities. As a result of the provisions in the Financial Institutional Reform, Recovery and Enforcement Act of 1989, BHCs may now own and operate savings and loan associations or savings banks which, in the past, was prohibited. First Merchants and Union National are national banks and are supervised, regulated and examined by the Comptroller of the Currency. Pendleton, First United, and Randolph County are state banks and are supervised, regulated and examined by the Indiana Department of Financial Institutions (the "DFI"). In addition, First Merchants, as a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve. In addition, Pendleton, First United, and Randolph County, which are not members of the Federal Reserve System, are supervised and regulated by the Federal Deposit Insurance Corporation ("FDIC"). The deposits of First Merchants, Union National, Pendleton, First United, and Randolph County (the "Banks") are insured by the FDIC. Each regulator has the authority to issue cease-and-desist orders if it determines their activities represent an unsafe and unsound practice or violation of law.

Under the Act and under regulations of the FRB, the Corporation and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with the extension of credit and are subject to limitations as to certain intercompany transactions.

Subject to certain limitations, an Indiana bank may establish branches de novo and may establish branches by acquisition in any location or locations within Indiana. Indiana law permits intrastate bank holding company acquisitions, subject to certain limitations. Effective July 1, 1992, Indiana bank holding companies were permitted to acquire banks, and banks and bank holding companies in Indiana were permitted to be acquired by bank holding companies, located in any state in the United States which permits reciprocal entry by Indiana bank holding companies. Prior to July 1, 1992, such interstate bank holding company acquisitions were permitted only on a regional, as opposed to national, basis. Neither the Corporation nor its subsidiaries presently contemplate engaging in any non-banking related business activities.

During 1991, Congress passed the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"). In addition to addressing the insurance fund's financial needs, FDICIA expanded the power of the federal banking regulators. FDICIA introduced a new system of classifying financial institutions with respect to their capitalization. Effective in 1993, FDICIA also requires certain financial institutions, such as First Merchants, to have annual audits and requires management to issue supplemental reports attesting to an institution's compliance with laws and regulations and to the adequacy of its internal controls and procedures.

SUPERVISION AND REGULATION (continued)

The Riegle Community Development and Regulatory Improvement Act of 1994 ("Act") was signed into law in 1994. The Act contains seven titles pertaining to community development and home ownership protection, small business capital formation, paperwork reduction and regulatory improvement, money laundering and flood insurance. The Act grants the authority to several agencies to promulgate regulations under the Act. No regulations have yet been promulgated. The Corporation cannot predict with certainty the impact of the Act on the banking industry.

In September, 1994, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Interstate Act") was enacted into law. The Interstate Act authorized interstate acquisitions, mergers and bank branching and agency banking with affiliates in different states. The Interstate Act amends the Bank Holding Company Act to allow adequately capitalized and managed bank holding companies to acquire a bank located in another state beginning in September, 1995. The new act permits full interstate branching after June 1, 1997. After that date, BHCs may merge existing bank subsidiaries into one bank, with banks also permitted to merge unaffiliated banks across state lines. States may permit interstate branching earlier than June 1, 1997, where both states involved with a bank merger expressly permit it by statute. The Interstate Act permits states to enact a law expressly prohibiting interstate mergers. Such laws must apply equally to all out-of-state banks and be passed before June 1, 1997.

The monetary policies of regulatory authorities, including the Federal Reserve Board, have a significant effect on the operating results of banks and bank holding companies. The nature of future monetary policies and the effect of such policies on the future business and earnings of the Corporation and its subsidiary banks cannot be predicted.

The Corporation is under the jurisdiction of the Securities and Exchange Commission and state securities commission for matters relating to the offering and sale of its securities and is subject to the Securities and Exchange Commission's rules and regulations relating to periodic reporting, reporting to stockholders, proxy solicitation, and insider trading.

The Corporation's income is principally derived from dividends paid on the common stock of its subsidiaries. The payment of these dividends are subject to certain regulatory restrictions.

CAPITAL REQUIREMENTS

The Corporation and its subsidiary banks must meet certain minimum capital requirements mandated by the FRB, the FDIC and DFI. These regulatory agencies require BHCs and banks to maintain certain minimum ratios of primary capital to total assets and total capital to total assets. As of January 1, 1991, the FRB required bank holding companies to maintain a minimum Tier 1 leverage ratio to 3 per cent capital to total assets; however, for all but the most highly rated institutions which do not anticipate significant growth, the minimum Tier 1 ratio is 3 per cent plus an additional cushion of 100 to 200 basis points. As of December 31, 1996, the Corporation's leverage ratio of capital to total assets was 11.6 per cent.

The FRB and FDIC each have approved the imposition of "risk-adjusted" capital ratios on BHCs and financial institutions. The Corporation and its subsidiaries had capital to assets ratios and risk-adjusted capital ratios at December 31, 1996, in excess of the applicable regulatory minimum requirements.

CAPITAL REQUIREMENTS (continued)

The following table summarizes the Corporation's risk-adjusted capital ratios under FRB guidelines at December 31, 1996:

	Corporation's Consolidated Ratio -----	Regulatory Minimum Requirement -----
Tier 1 Capital to Risk-Weighted Assets Ratio	17.0%	4.0%
Total Capital to Risk-Weighted Assets Ratio	18.0%	8.0%

STATISTICAL DATA

The following tables set forth statistical data relating the Corporation and its subsidiaries.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL

The daily average balance sheet amounts, the related interest income or expense, and average rates earned or paid are presented in the following table.

	1996			1995			1994		
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE RATE	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE RATE	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE RATE
(DOLLARS IN THOUSANDS ON FULLY TAXABLE EQUIVALENT BASIS)									
ASSETS:									
FEDERAL FUNDS SOLD	\$ 9,359	\$ 498	5.3%	\$ 18,409	\$ 1,028	5.6%	\$ 6,199	\$ 271	4.4%
INTEREST-BEARING DEPOSITS	346	16	4.6	250	9	3.6	65	2	3.1
FEDERAL RESERVE AND FEDERAL HOME LOAN BANK STOCK	2,800	212	7.6	2,692	209	7.8	2,638	163	6.2
SECURITIES:(1)									
TAXABLE	204,323	12,752	6.2	206,724	12,419	6.0	205,978	11,771	5.7
TAX-EXEMPT	77,996	5,892	7.6	72,666	5,542	7.6	77,323	5,674	7.3
TOTAL SECURITIES	282,319	18,644	6.6	279,390	17,961	6.4	283,301	17,445	6.2
MORTGAGE LOANS HELD FOR SALE	262	21	8.0	281	22	7.8			
LOANS:(2)									
COMMERCIAL	230,848	21,232	9.2	211,998	20,347	9.6	199,622	16,493	8.3
BANKERS' ACCEPTANCE AND COMMERCIAL PAPER PURCHASED	20	1	5.5	2,590	149	5.8	454	22	4.8
REAL ESTATE MORTGAGE	233,830	19,543	8.4	218,607	18,566	8.5	206,015	16,401	8.0
INSTALLMENT	119,379	11,300	9.5	109,917	9,997	9.1	105,960	8,762	8.3
TAX-EXEMPT	1,566	140	8.9	1,064	112	10.5	1,733	179	10.3
TOTAL LOANS	585,643	52,216	8.9	544,176	49,171	9.0	513,784	41,857	8.1
TOTAL EARNING ASSETS	880,729	71,607	8.1	845,198	68,400	8.1	805,987	59,738	7.4
NET UNREALIZED LOSS ON SECURITIES									
AVAILABLE FOR SALE	(961)			(1,483)			(1,457)		
ALLOWANCE FOR LOAN LOSSES	(6,672)			(6,654)			(6,589)		
CASH AND DUE FROM BANKS	28,341			26,359			27,780		
PREMISES AND EQUIPMENT	14,879			14,225			13,415		
OTHER ASSETS	15,828			13,350			14,121		
TOTAL ASSETS	\$932,144			\$890,995			\$853,257		
LIABILITIES:									
INTEREST-BEARING DEPOSITS:									
NOW ACCOUNTS	\$109,792	\$ 2,503	2.3	\$103,015	\$ 2,643	2.6	\$107,862	\$ 2,408	2.2
MONEY MARKET DEPOSIT ACCOUNTS	100,897	3,701	3.7	107,735	4,147	3.8	119,388	3,545	3.0
SAVINGS DEPOSITS	70,875	1,898	2.7	74,293	2,125	2.9	86,322	2,442	2.8
CERTIFICATES AND OTHER TIME DEPOSITS	381,378	21,037	5.5	355,448	19,312	5.4	299,817	13,008	4.3
TOTAL INTEREST-BEARING DEPOSITS	662,942	29,139	4.4	640,491	28,227	4.4	613,389	21,403	3.5
SHORT-TERM BORROWINGS	51,768	2,687	5.2	47,345	2,628	5.6	48,917	1,964	4.0
FEDERAL HOME LOAN BANK ADVANCES	9,192	523	5.7	9,000	496	5.5	7,692	462	6.0
TOTAL INTEREST-BEARING LIABILITIES	723,902	32,349	4.5	696,836	31,351	4.5	669,998	23,829	3.6
NONINTEREST-BEARING DEPOSITS	90,719			88,335			85,255		
OTHER LIABILITIES	9,429			6,791			6,538		
TOTAL LIABILITIES	824,050			791,962			761,791		
STOCKHOLDERS' EQUITY	108,094			99,033			91,466		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$932,144	32,349	3.6(3)	\$890,995	31,351	3.7(3)	\$853,257	23,829	3.0(3)
NET INTEREST INCOME	\$ 39,258	4.5		\$ 37,049	4.4		\$ 35,909	4.5	

(1) AVERAGE BALANCE OF SECURITIES IS COMPUTED BASED ON THE AVERAGE OF THE HISTORICAL AMORTIZED COST BALANCES WITHOUT THE EFFECTS OF THE FAIR VALUE ADJUSTMENT.
(2) NONACCRUING LOANS HAVE BEEN INCLUDED IN THE AVERAGE BALANCES.
(3) TOTAL INTEREST EXPENSE DIVIDED BY TOTAL EARNING ASSETS

ADJUSTMENT TO CONVERT TAX EXEMPT INVESTMENT
SECURITIES TO FULLY TAXABLE EQUIVALENT BASIS,
USING MARGINAL RATE OF 34% FOR 1994 AND 35%
FOR 1995 AND 1996

\$ 2,112

\$ 1,952

\$ 1,971

STATISTICAL DATA (continued)

ANALYSIS OF CHANGES IN NET INTEREST INCOME

The following table presents net interest income components on a tax-equivalent basis and reflects changes between periods attributable to movement in either the average balance or average interest rate for both earning assets and interest-bearing liabilities. The volume differences were computed as the difference in volume between the current and prior year times the interest rate of the prior year, while the interest rate changes were computed as the difference in rate between the current and prior year times the volume of the prior year. Volume/rate variances have been allocated on the basis of the absolute relationship between volume variances and rate variances.

	1996 Compared to 1995 Increase (Decrease) Due To			1995 Compared to 1994 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in Thousands on Fully Taxable Equivalent Basis)					
Interest income:						
Federal funds sold	\$ (478)	\$ (52)	\$ (530)	\$ 665	\$ 92	\$ 757
Interest-bearing deposits	4	3	7	7		7
Federal Reserve and Federal Home Loan Bank stock	8	(5)	3	3	43	46
Securities	171	512	683	(185)	701	516
Mortgage loans held for sale	(2)	1	(1)	22		22
Loans	3,607	(562)	3,045	2,541	4,773	7,314
Totals	3,310	(103)	3,207	3,053	5,609	8,662
Interest expense:						
NOW accounts	173	(313)	(140)	(125)	360	235
Money market deposit accounts	(315)	(131)	(446)	(351)	953	602
Savings deposits	(91)	(136)	(227)	(390)	73	(317)
Certificates and other time deposits	1,376	349	1,725	2,650	3,654	6,304
Short-term borrowings	248	(189)	59	(67)	731	664
Federal Home Loan Bank advances	10	17	27	74	(40)	34
Totals	1,401	(403)	998	1,791	5,731	7,522
Change in net interest income (fully taxable equivalent basis)	\$1,909	\$ 300	2,209	\$1,262	\$ (122)	1,140
Tax equivalent adjustment using marginal rate of 34% for 1994 and 35% for 1995 and 1996			(160)			19
Change in net interest income			\$2,049			\$1,159

STATISTICAL DATA (continued)

INVESTMENT SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses and approximate market value of the investment securities at the dates indicated were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Available for sale at December 31, 1996:				
U.S. Treasury	\$ 21,570	\$ 92	\$ 46	\$ 21,616
Federal agencies	79,130	540	180	79,490
State and municipal	52,026	1,173	106	53,093
Mortgage-backed securities	41,441	297	275	41,463
Other asset-backed securities	709			709
Corporate obligations	31,470	156	128	31,498
Marketable equity securities	510			510
	-----	-----	-----	-----
Total available for sale	226,856	2,258	735	228,379
	-----	-----	-----	-----
Held to maturity at December 31, 1996:				
U.S. Treasury	249		7	242
Federal agencies	5,729	23	5	5,747
State and municipal	36,405	381	21	36,765
Mortgage-backed securities	2,730		13	2,717
Other asset-backed securities	2,114	17	108	2,023
	-----	-----	-----	-----
Total held to maturity	47,227	421	154	47,494
	-----	-----	-----	-----
Total investment securities	\$ 274,083	\$ 2,679	\$ 889	\$ 275,873
	-----	-----	-----	-----
Available for sale at December 31, 1995:				
U.S. Treasury	\$ 16,239	\$ 184	\$ 11	\$ 16,412
Federal agencies	84,047	1,529	93	85,483
State and municipal	40,391	1,257	68	41,580
Mortgage-backed securities	47,012	411	282	47,141
Other asset-backed securities	433		1	432
Corporate obligations	34,114	289	106	34,297
Marketable equity securities	562	31		593
	-----	-----	-----	-----
Total available for sale	222,798	3,701	561	225,938
	-----	-----	-----	-----
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	40,393	574	57	40,910
Mortgage-backed securities	4,563	9	21	4,551
Other asset-backed securities	474	8		482
Corporate obligations	500		1	499
	-----	-----	-----	-----
Total held to maturity	60,678	668	102	61,244
	-----	-----	-----	-----
Total investment securities	\$ 283,476	\$ 4,369	\$ 663	\$ 287,182
	-----	-----	-----	-----

STATISTICAL DATA (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Available for sale at December 31, 1994				
U.S. Treasury	\$ 21,815		\$ 678	\$ 21,137
Federal agencies	40,060	\$ 3	1,510	38,553
State and municipal	12,936	86	474	12,548
Mortgage-backed securities	24,464	29	1,132	23,361
Other asset-backed securities	930			930
Corporate obligations	26,457	4	1,195	25,266
Marketable equity securities	354	8	2	360
Total available for sale	127,016	130	4,991	122,155
Held to maturity at December 31, 1994				
U.S. Treasury	18,098	21	404	17,715
Federal agencies	29,528	29	589	28,968
State and municipal	58,974	525	1,085	58,414
Mortgage-backed securities	17,569	69	905	16,733
Other asset-backed securities	2,110		33	2,077
Corporate obligations	10,514	5	230	10,289
Total held to maturity	136,793	649	3,246	134,196
Total investment securities	\$ 263,809	\$ 779	\$8,237	\$ 256,351

	Cost		
	1996	1995	1994
Federal Reserve and Federal Home Loan Bank stock at December 31:			
Federal Reserve Bank stock	\$ 397	\$ 397	\$ 397
Federal Home Loan Bank stock	2,693	2,305	2,283
Total	\$ 3,090	\$ 2,702	\$ 2,680

The Fair Value of Federal Reserve and Federal Home Loan Bank stock approximates cost.

The maturity distribution (dollars in thousands) and average yields for the securities portfolio at December 31, 1996 were:

Securities available for sale December 31, 1996:

	Within 1 Year		1-5 Years		5 - 10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury	\$ 7,812	6.44%	\$ 13,758	5.88%		
Federal Agencies	18,621	5.93	60,509	6.43		
State and Municipal	4,345	6.57	24,490	7.07	\$ 16,507	7.24%
Corporate Obligations	8,983	5.42	21,852	6.28	635	6.66
Marketable Equity Securities	510	7.90				
Total	\$ 40,271	6.01%	\$120,609	6.47%	\$ 17,142	7.22%

STATISTICAL DATA (continued)

	Due After Ten Years		Mortgage and other asset-backed		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury					\$ 21,570	6.08%
Federal Agencies					79,130	6.31
State and Municipal	6,684	6.47%			52,026	7.00
Corporate Obligations					31,470	6.04
Marketable Equity Security					510	7.90
Mortgage-backed securities			\$ 41,441	6.87%	41,441	6.87
Other asset-backed securities			709	6.81	709	6.81
Total	\$ 6,684	6.47%	\$ 42,150	6.87%	\$226,856	6.52%

Securities held to maturity at December 31, 1996:

	Within 1 Year		1 - 5 Years		5 - 10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury			\$ 249	5.36%		
Federal Agencies	\$ 2,301	5.49%	3,428	6.35		
State and Municipal	10,400	7.25	22,015	7.12	\$ 3,415	7.71%
Total	\$ 12,701	6.93%	\$ 25,692	7.00%	\$ 3,415	7.71%

	Due After Ten Years		Mortgage and other asset-backed		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury					\$ 249	5.36%
Federal Agencies					5,729	6.01
State and Municipal	\$ 575	8.98%			36,405	7.24
Mortgage-backed securities			\$ 2,730	6.67%	2,730	6.67
Other asset-backed securities			2,114	6.99	2,114	6.99
Total	\$ 575	8.98%	\$ 4,844	6.81%	\$ 47,277	7.04%

*Interest yields on state and municipal securities are presented on a fully taxable equivalent basis using a 35% rate.

Federal Reserve and Federal Home Loan Bank stock at December 31, 1996:

	Amount	Yield
Federal Reserve Bank stock	\$ 397	6.00%
Federal Home Loan Bank stock	2,693	8.00
Total	\$ 3,090	7.74

STATISTICAL DATA (continued)

LOAN PORTFOLIO

TYPES OF LOANS

The loan portfolio at the dates indicated is presented below:

	1996	1995	1994	1993	1992
	----	----	----	----	----
	(Dollars in Thousands)				
Loans at December 31:					
Commercial and industrial loans	\$ 132,134	\$ 98,880	\$ 89,696	\$ 90,192	\$ 87,680
Bankers acceptances and loans to financial institutions	625	2,925		3,293	9,822
Agricultural production financing and other loans to farmers	18,906	17,203	17,255	16,470	18,768
Real estate loans:					
Construction	13,167	9,913	8,126	8,127	2,619
Commercial and farmland	97,596	104,731	95,092	85,992	74,389
Residential	253,530	215,738	217,148	196,570	177,050
Individuals' loans for household and other personal expenditures	113,507	102,313	99,812	91,277	78,485
Tax-exempt loans	1,643	1,204	1,514	2,029	3,083
Other loans	1,672	949	1,608	3,350	5,594
	-----	-----	-----	-----	-----
Unearned interest on loans	632,780 (1,364)	553,856 (1,518)	530,251 (1,610)	497,300 (1,597)	457,490 (1,585)
	-----	-----	-----	-----	-----
Total loans	\$ 631,416	\$ 552,338	\$ 528,641	\$ 495,703	\$ 455,905
	-----	-----	-----	-----	-----

Residential Real Estate Loans Held for Sale at December 31, 1996 and 1995 were \$284,020 and \$735,522.

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

Presented in the table below are the maturities of loans (excluding commercial real estate, farmland, residential real estate and individuals' loans) outstanding as of December 31, 1996. Also presented are the amounts due after one year classified according to the sensitivity to changes in interest rates.

	Maturing			
	Within 1 Year	1-5 Years	Over 5 Years	Total
	-----	-----	-----	-----
	(Dollars in Thousands)			
Commercial and industrial loans . .	\$ 75,886	\$ 28,642	\$ 27,606	\$132,134
Agricultural production financing and other loans to farmers	15,237	2,831	838	18,906
Real estate - Construction	8,238	2,394	2,535	13,167
Tax-exempt loans	672	855	116	1,643
Other loans	1,009	663		1,672
	-----	-----	-----	-----
Total	\$101,042	\$ 35,385	\$ 31,095	\$167,522
	-----	-----	-----	-----

STATISTICAL DATA (continued)

	Maturing	
	1 - 5 Years	Over 5 Years
(Dollars in Thousands)		
Loans maturing after one year with:		
Fixed rates	\$ 14,240	\$ 9,335
Variable rate	21,145	21,760
Total	\$ 35,385	\$ 31,095

RISK ELEMENTS

	December 31				
	1996	1995	1994	1993	1992
(Dollars in Thousands)					
Nonaccruing loans	\$ 2,777	\$ 576	\$ 398	\$ 1,649	\$ 1,614
Loans contractually past due 90 days or more other than nonaccruing	1,699	1,119	1,322	936	1,050
Restructured loans	1,540	1,075	1,242	1,509	2,226

Nonaccruing loans are loans which are reclassified to a nonaccruing status when in management's judgment the collateral value and financial condition of the borrower do not justify accruing interest. Interest previously recorded but not deemed collectible is reversed and charged against current income. Interest income on these loans is then recognized when collected.

Restructured loans are loans for which the contractual interest rate has been reduced or other concessions are granted to the borrower because of a deterioration in the financial condition of the borrower resulting in the inability of the borrower to meet the original contractual terms of the loans.

Interest income of \$255,381 for the year ended December 31, 1996, was recognized on the nonaccruing and restructured loans listed in the table above, whereas interest income of \$320,642 would have been recognized under their original loan terms.

Potential problem loans:

Management has identified certain other loans totaling \$7,732,143 as of December 31, 1996, not included in the risk elements table, which are current as to principal and interest, about which there are doubts as to the borrowers' ability to comply with present repayment terms.

The Banks generate commercial, mortgage and consumer loans from customers located primarily in central and east central Indiana and Butler County, Ohio. The Banks' loans are generally secured by specific items of collateral, including real property, consumer assets, and business assets. Although the Banks have diversified loan portfolio, a substantial portion of their debtors' ability to honor their contracts is dependent upon economic conditions in the automotive and agricultural industries.

STATISTICAL DATA (continued)

SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes the loan loss experience for the years indicated.

	1996	1995	1994	1993	1992
	----	----	----	----	----
	(Dollars in Thousands)				
Allowance for loan losses:					
Balance at January 1	\$ 6,696	\$ 6,603	\$ 6,467	\$ 5,811	\$ 5,076
Chargeoffs:					
Commercial	767	794	973	675	950
Real estate mortgage	14	1	53	129	112
Installment	855	759	462	571	708
Total chargeoffs	1,636	1,554	1,488	1,375	1,770
Recoveries:					
Commercial	106	127	269	248	236
Real estate mortgage	7	4	30	5	38
Installment	196	128	123	124	130
Total recoveries	309	259	422	377	404
Net chargeoffs	1,327	1,295	1,066	998	1,366
Provisions for loan losses . . .	1,253	1,388	1,202	1,654	2,101
Balance at December 31	\$ 6,622	\$ 6,696	\$ 6,603	\$ 6,467	\$ 5,811
Ratio of net chargeoffs during the period to average loans outstanding during the period . .	.23%	.24%	.21%	.21%	.32%
Peer Group	N/A	.26%	.25%	.49%	.65%

STATISTICAL DATA (continued)

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES AT DECEMBER 31:

Presented below is an analysis of the composition of the allowance for loan losses and per cent of loans in each category to total loans:

	1996		1995	
	Amount	Per Cent	Amount	Per Cent
(Dollars in Thousands)				
Balance at December 31:				
Commercial, financial and agricultural	\$ 2,924	24.2%	\$ 3,105	21.8%
Real estate - construction	3	2.1	1	1.8
Real estate - mortgage . .	1,041	55.6	1,121	58.0
Installment	1,576	17.8	1,506	18.2
Tax-exempt loans	16	.3	4	.2
Unallocated	1,062	N/A	959	N/A
Totals	\$ 6,622	100.0%	\$ 6,696	100.0%

	1994		1993	
	Amount	Per Cent	Amount	Per Cent
(Dollars in Thousands)				
Balance at December 31:				
Commercial, financial and agricultural	\$ 3,080	20.5%	\$ 3,021	22.9%
Real estate - construction	4	1.5	6	1.6
Real estate - mortgage . .	1,048	59.1	870	57.0
Installment	1,550	18.6	1,589	18.1
Tax-exempt loans	4	.3	7	.4
Unallocated	917	N/A	974	N/A
Totals	\$ 6,603	100.0%	\$ 6,467	100.0%

	1992	
	Amount	Per Cent
(Dollars in Thousands)		
Balance at December 31:		
Commercial, financial and agricultural	\$ 3,089	26.6%
Real estate - construction	2	.6
Real estate - mortgage . .	771	55.2
Installment	1,688	16.9
Tax-exempt loans	8	.7
Unallocated	253	N/A
Totals	\$ 5,811	100.0%

STATISTICAL DATA (continued)

LOAN LOSS CHARGEOFF PROCEDURES

The Banks have weekly meetings at which loan delinquencies, maturities and problems are reviewed. The Board of Directors receive and review reports on loans monthly.

The Executive Committee of First Merchants' Board meets bimonthly to approve or disapprove all new loans in excess of \$1,000,000 and the Board reviews all commercial loans in excess of \$50,000 which were made or renewed during the preceding month. Pendleton's and First United's loan committees, consisting of all loan officers and the president, meet as required to approve or disapprove any loan which is in excess of an individual loan officer's lending limit.

The Loan/Discount Committee of Union County's Board meets monthly to approve or disapprove all loans to borrowers with aggregate loans in excess of \$300,000. The Loan Committee of Randolph County's Board meets weekly to approve or disapprove any loan which is in excess of an individual loan officer's lending limit.

All chargeoffs are approved by the senior loan officer and are reported to the Banks' Boards. The Banks charge off loans when a determination is made that all or a portion of a loan is uncollectible or as a result of examinations by regulators and the independent auditors.

PROVISION FOR LOAN LOSSES

In banking, loan losses are one of the costs of doing business. Although the Banks' management emphasize the early detection and chargeoff of loan losses, it is inevitable that at any time certain losses exist in the portfolio which have not been specifically identified. Accordingly, the provision for loan losses is charged to earnings on an anticipatory basis, and recognized loan losses are deducted from the allowance so established. Over time, all net loan losses must be charged to earnings. During the year, an estimate of the loss experience for the year serves as a starting point in determining the appropriate level for the provision. However, the amount actually provided in any period may be greater or less than net loan losses, based on management's judgment as to the appropriate level of the allowance for loan losses. The determination of the provision in any period is based on management's continuing review and evaluation of the loan portfolio, and its judgment as to the impact of current economic conditions on the portfolio. The evaluation by management includes consideration of past loan loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding.

Impaired loans are measured by the present value of expected future cash flows, or the fair value of the collateral of the loans, if collateral dependent. Information on impaired loans is summarized below:

	1996 -----	1995 -----
	(Dollars in Thousands)	
For the year ending December 31:		
Impaired loans with an allowance	\$ 3,124	\$ 2,314
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	868	2,498
	-----	-----
Total impaired loans	\$ 3,992	\$ 4,812
	-----	-----
Allowance for impaired loans (included in the Corporation's allowance for loan losses)	\$ 1,092	\$ 1,177
Average balance of impaired loans	5,213	4,650
Interest income recognized on impaired loans	311	153
Cash basis interest included above	291	93

STATISTICAL DATA (continued)

DEPOSITS

The following table shows the average amount of deposits and average rate of interest paid thereon for the years indicated.

	1996		1995		1994	
	Amount	Rate	Amount	Rate	Amount	Rate
(Dollars in Thousands)						
Balance at December 31:						
Noninterest bearing deposits . . .	\$ 90,719		\$ 88,335		\$ 85,255	
NOW accounts	109,792	2.3%	103,015	2.6%	107,862	2.2%
Money market deposit accounts . .	100,897	3.7	107,735	3.8	119,388	3.0
Savings deposits	70,875	2.7	74,293	2.9	86,322	2.8
Certificates of deposit and other time deposits	381,378	5.5	355,448	5.4	299,817	4.3
Total deposits	\$753,661	3.9	\$728,826	3.9	\$698,644	3.1

As of December 31, 1996, certificates of deposit and other time deposits of \$100,000 or more mature as follows:

	Maturing				Total
	3 Months or less	3-6 Months	6-12 Months	Over 12 Months	
(Dollars in Thousands)					
Certificates of deposit and other time deposits	\$36,090	\$13,321	\$14,044	\$19,347	\$82,802
Per cent	44%	16%	17%	23%	100%

RETURN ON EQUITY AND ASSETS

	1996	1995	1994
Return on assets (net income divided by average total assets)	1.41%	1.35%	1.33%
Return on equity (net income divided by average equity)	12.16	12.17	12.42
Dividend payout ratio (dividends per share divided by net income per share) . .	40.85	39.49	39.44
Equity to assets ratio (average equity divided by average total assets)	11.60	11.11	10.72

STATISTICAL DATA (continued)

SHORT-TERM BORROWINGS

	1996 ----	1995 ----	1994 ----
	(Dollars in Thousands)		
Balance at December 31:			
Federal funds purchased	\$ 20,725	\$ 1,700	\$ 12,198
Securities sold under repurchase agreements	20,054	28,887	19,010
U.S. Treasury demand notes	4,258	6,790	9,423
	-----	-----	-----
Total short-term borrowings	\$ 45,037	\$ 37,377	\$ 40,631
	-----	-----	-----

Securities sold under repurchase agreements are borrowings maturing within one year and are secured by U. S. Treasury and Federal agency obligations.

Pertinent information with respect to short-term borrowings is summarized below:

	1996 ----	1995 ----	1994 ----
	(Dollars in Thousands)		
Weighted average interest rate on outstanding balance at December 31:			
Securities sold under repurchase agreements	4.92%	5.26%	4.78%
Total short-term borrowings	5.78	5.28	5.38
Weighted average interest rate during the year:			
Securities sold under repurchase agreements	5.07	5.52	3.88
Total short-term borrowings	5.19	5.55	4.04
Highest amount outstanding at any month end during the year:			
Securities sold under repurchase agreements	\$52,221	\$58,097	\$30,230
Total short-term borrowings	83,678	65,514	73,731
Average amount outstanding during the year:			
Securities sold under repurchase agreements	42,140	35,436	24,696
Total short-term borrowings	51,768	47,498	48,932

ITEM 2. PROPERTIES.

The headquarters of the Corporation and First Merchants are located in a five-story building at 200 East Jackson Street, Muncie, Indiana. This building and eight branch buildings are owned by First Merchants; four remaining branches of First Merchants are located in leased premises. Twelve automated cash dispensers are located in leased premises. All of the Corporation's and First Merchants' facilities are located in Delaware and Madison Counties of Indiana.

The principal offices of Pendleton are located at 100 West State Street, Pendleton, Indiana. Pendleton also operates three branches. All of Pendleton's properties are owned by Pendleton and are located in Madison County, Indiana. Two automated dispensers are located in leased premises.

The principal offices of First United are located at 790 West Mill Street, Middletown, Indiana. First United also operates two branches. All of First United's properties are owned by First United and are located in Henry County, Indiana.

The principal offices of Union National are located at 107 West Union Street, Liberty, Indiana. This building and two branches are owned by Union National; one branch is located in leased premises. Three automated cash dispensers are located in leased premises. All of Union National's facilities are located in Union, Fayette and Wayne Counties of Indiana.

The principal office of Randolph County is located at 122 West Washington Street, Winchester, Indiana. This building is owned by Randolph County and is located in Randolph County, Indiana.

None of the properties owned by the banks are subject to any major encumbrances. The net investment of the Corporation and subsidiaries in real estate and equipment at December 31, 1996 was \$15,303,300.

ITEM 3. LEGAL PROCEEDINGS.

There is no pending legal proceeding, other than ordinary routine litigation incidental to the business of the Corporation or its subsidiaries, of a material nature to which the Corporation or its subsidiaries is a party or of which any of their properties are subject. Further, there is no material legal proceeding in which any director, officer, principal shareholder, or affiliate of the Corporation, or any associate of any such director, officer or principal shareholder, is a party, or has a material interest, adverse to the Corporation.

None of the routine legal proceedings, individually or in the aggregate, in which the Corporation or its affiliates are involved are expected to have a material adverse impact on the financial position or the results of operations of the Corporation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted during the fourth quarter of 1996 to a vote of security holders, through the solicitation of proxies or otherwise.

SUPPLEMENTAL INFORMATION - EXECUTIVE OFFICERS OF THE REGISTRANT.

The names, ages, and positions with the Corporation and subsidiary banks of all executive officers of the Corporation are listed below.

Name and Age	Offices with the Corporation And Subsidiary Banks	Principal Occupation During Past Five Years
Stefan S. Anderson 62	Chairman of the Board, President and Chief Executive Officer, Corporation; Chairman of the Board and Chief Executive Officer, First Merchants Bank, N.A.	Chairman of the Board of the Corporation and First Merchants since 1987; President and Chief Executive Officer of the Corporation since 1982, and Chief Executive Officer of First Merchants Bank since 1979
Michael L. Cox 52	Executive Vice President, Chief Operating Officer and Director, Corporation; President, Chief Operating Officer and Director, First Merchants Bank, N.A.	Executive Vice President and Chief Operating Officer, Corporation since May, 1994; President and Chief Operating Officer, First Merchants since April, 1996; Director, Corporation and First Merchants since December, 1984; President, Information Services Group, Ontario Corporation prior to May 1994
Larry R. Helms 56	Senior Vice President, General Counsel and Secretary, Corporation; Senior Vice President, First Merchants Bank, N.A.; Director of First United Bank; Director of Pendleton Banking Company	Senior Vice President, Corporation since 1982; General Counsel, Corporation since 1990 and Secretary since January 1, 1997; Senior Vice President, First Merchants since January 1979; Director of First United Bank since 1991 and Pendleton Banking Company since 1992
Ted J. Montgomery 57	Senior Vice President and Director, Corporation; President, Chief Executive Officer and Director, The Union County National Bank of Liberty	Senior Vice President and Director, Corporation since August 1996; President, Union County National Bank since 1983 and Director since 1981
James L. Thrash 47	Senior Vice President and Chief Financial Officer, Corporation; Senior Vice President, First Merchants Bank, N.A.	Senior Vice President and Chief Financial Officer of the Corporation since 1990; Senior Vice President, First Merchants since 1990

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information required under this item is incorporated by reference to page 4 of the Corporation's 1996 Annual Report to Stockholders under the caption "Stockholder Information," Exhibit 13.

ITEM 6. SELECTED FINANCIAL DATA.

The information required under this item is incorporated by reference to page 1 of the Corporation's 1996 Annual Report to Stockholders - Financial Review under the caption "Five-Year Summary of Selected Financial Data," Exhibit 13.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required under this item is incorporated by reference to page 2 through 7 of the Corporation's 1996 Annual Report to Stockholders - Financial Review under the caption "Management's Discussion and Analysis," Exhibit 13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and supplementary data required under this item are incorporated herein by reference to inside cover and pages 8 through 26 of the Corporation's 1996 Annual Report to Stockholders - Financial Review, Exhibit 13.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

In connection with its audits for the two most recent fiscal years ended December 31, 1996, there have been no disagreements with the Corporation's independent certified public accountants on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure, nor have there been any changes in accountants.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required under this item relating to directors is incorporated by reference to the Corporation's 1997 Proxy Statement furnished to its stockholders in connection with an annual meeting to be held April 8, 1997 (the "1997 Proxy Statement"), under the caption "Election of Directors," which Proxy Statement has been filed with the Commission. The information required under this item relating to executive officers is set forth in Part I, "Supplemental Information - Executive Officers of the Registrant" of this annual report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION.

The information required under this item is incorporated by reference to the Corporation's 1997 Proxy Statement, under the captions, "Compensation of Directors" and "Compensation of Executive Officers," which Proxy Statement has been filed with the Commission.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required under this item is incorporated by reference to the Corporation's 1997 Proxy Statement, under the caption, "Security Ownership of Certain Beneficial Owners and Management," which Proxy Statement has been filed with the Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required under this item is incorporated by reference to the Corporation's 1997 Proxy Statement, under the caption "Interest of Management in Certain Transactions," which Proxy Statement has been filed with the Commission.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

	Annual Report Page Number	Form 10-K Page Number
	-----	-----
(a)1. Financial Statements:		
Independent auditor's report.	Inside Cover	106
Consolidated balance sheet at December 31, 1996 and 1995.	8	114
Consolidated statement of income, years ended December 31, 1996, 1995 and 1994.	9	115
Consolidated statement of changes in stockholders' equity, years ended December 31, 1996, 1995 and 1994. . .	10	116
Consolidated statement of cash flows, years ended December 31, 1996, 1995 and 1994	11	117
Notes to consolidated financial statements.	12-26	118

(a)2. Financial statement schedules:
 All schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or related notes.

(a)3. Exhibits:

Exhibit No:	Description of Exhibit:	Form 10-K Page Number
-----	-----	-----
3.1	First Merchants Corporation Articles of Incorporation and the Articles and amendment thereto.	31
3.2	First Merchants Corporation Bylaws and amendments thereto.	43
10.1	First Merchants Corporation and First Merchants Bank, National Association Management Incentive Plan.	57
10.2	First Merchants Bank, National Association Unfunded Deferred Compensation Plan, as amended	62
10.3	First Merchants Corporation 1989 Stock Option Plan is incorporated by reference to Registrant's Registration Statement on Form S-8 (SEC File No. 33-28901) effective on May 24, 1989	
10.4	First Merchants Corporation 1994 Stock Option Plan is incorporated by reference to Registrant's Form 10-K for year ended December 31, 1993	
10.5	First Merchants Corporation Change of Control Agreements	65
10.6	First Merchants Corporation Unfunded Deferred Compensation Plan.	76

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.
 (CONTINUED)

Exhibit No:	Description of Exhibit:	Form 10-K Page Number
-----	-----	-----
13	1996 Annual Report to Stockholders (except for the Pages and information thereof expressly incorporated by reference in this Form 10-K, the Annual Report to Stockholders is provided solely for the information of the Securities and Exchange Commission and is not deemed "filed" as part of this Form 10-K).	79-132
21	Subsidiaries of Registrant.	28
23	Consent of Independent Auditors	29
27.1	Financial Data Schedule, year ended December 31, 1996.	133
27.2	Financial Data Schedule, year ended December 31, 1995, restated	134
27.3	Financial Data Schedule, year ended December 31, 1994, restated	135
99.1	Financial statements and independent auditor's report for First Merchants Corporation Employee Stock Purchase Plan	30

(b) Reports on Form 8-K:

Form 8-K was filed on October 2, 1996 for the acquisition and merger by the Corporation of all the assets of Randolph County Bancorp. Form 8-K included various financial statements and exhibits related to this merger.

Pursuant to the requirements of Section 13 or 15(d) 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, on this 10th day of March, 1997.

FIRST MERCHANTS CORPORATION

By /s/ Stefan S. Anderson

Stefan S. Anderson, Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
----- /s/ Stefan S. Anderson ----- Stefan S. Anderson	Director, Principal Executive Officer	March 10, 1997
----- /s/ James L. Thrash ----- James L. Thrash	Principal Financial and Principal Accounting Officer	March 10, 1997
----- /s/ Michael L. Cox ----- Michael L. Cox	Director	March 10, 1997
----- Frank A. Bracken	Director	March 10, 1997
----- /s/ Thomas B. Clark ----- Thomas B. Clark	Director	March 10, 1997
----- /s/ David A. Galliher ----- David A. Galliher	Director	March 10, 1997
----- Norman M. Johnson	Director	March 10, 1997
----- /s/ Ted J. Montgomery ----- Ted J. Montgomery	Director	March 10, 1997
----- George A. Sissel	Director	March 10, 1997

Signature	Capacity	Date
----- Robert M. Smitson	Director	March 10, 1997
/s/ Michael D. Wickersham ----- Michael D. Wickersham	Director	March 10, 1997
----- Robert F. Wisehart	Director	March 10, 1997
/s/ John E. Worthen ----- John E. Worthen	Director	March 10, 1997

INDEX TO EXHIBITS

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ARTICLES OF INCORPORATION
OF
FIRST MERCHANTS CORPORATION

Following are the Articles of Incorporation, as amended, of First Merchants Corporation (hereinafter referred to as the "Corporation"), a corporation existing pursuant to the provisions of the Indiana Business Corporation Law, as amended (hereinafter referred to as the "Act"):

ARTICLE I

NAME

The name of the Corporation is First Merchants Corporation.

ARTICLE II

PURPOSES

The purposes for which the Corporation is formed are:

SECTION 1. To acquire control of The Merchants National Bank of Muncie and to operate as a bank holding company.

SECTION 2. GENERAL POWERS. To possess, exercise, and enjoy all rights, powers and privileges conferred upon bank holding companies by the Bank Holding Company Act of 1956 as amended and as hereafter amended or supplemented, and all other rights and powers authorized by the laws of the State of Indiana, and the laws of the United States of America applicable to bank holding companies and the regulations of the Board of Governors of the Federal Reserve System.

SECTION 3. TO DEAL IN REAL PROPERTY. Subject to the limitations of Section 2 above, to acquire by purchase, exchange, lease or otherwise, and to hold, own, use, construct, improve, equip, manage, occupy, mortgage, sell, lease, convey, exchange or otherwise dispose of, alone or in conjunction with others, real estate and leaseholds of every kind, character and description whatsoever and wheresoever situated, and any other interests therein, including, but without limiting the generality thereof, buildings, factories, warehouses, offices and structures of all kinds.

SECTION 4. CAPACITY TO ACT. Subject to the limitations of Section 2 above, to have the capacity to act possessed by natural persons and to perform such acts as are necessary and advisable to accomplish the purposes, activities and business of the Corporation.

SECTION 5. TO ACT AS AGENT. Subject to the limitations of Section 2 above, to act as agent or representative for any firm, association, corporation, partnership, government or person, public or private, with respect to any activity or business of the Corporation.

SECTION 6. TO MAKE CONTRACTS AND GUARANTEES. Subject to the limitations of Section 2 above, to make, execute and perform, or cancel and rescind, contracts of every kind and description, including guarantees and contracts of suretyship, with any firm, association, corporation, partnership, government or person, public or private.

SECTION 7. TO BORROW FUNDS. Subject to the limitations of Section 2 above, to borrow moneys for any activity or business of the Corporation and, from time to time, without limit as to amount, to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures, notes, trust receipts, and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment thereof, and the interest thereon, by mortgage, pledge, conveyance, or assignment in trust of all or any part of the assets of the Corporation, real, personal or mixed, including contract rights, whether at the time owned or thereafter acquired, and to sell, exchange or otherwise dispose of such securities or other obligations of the Corporation.

SECTION 8. TO DEAL IN ITS OWN SECURITIES. Subject to the limitations of Section 2 above, to purchase, take, receive or otherwise acquire, and to hold, own, pledge, transfer or otherwise dispose of shares of its own capital stock and other securities. Purchases of the Corporation's own shares, whether direct or indirect, may be made without shareholder approval only to the extent of unreserved and unrestricted earned surplus available therefor.

ARTICLE III

PERIOD OF EXISTENCE

The period during which the Corporation shall continue is perpetual.

ARTICLE IV

RESIDENT AGENT AND PRINCIPAL OFFICE

SECTION 1. RESIDENT AGENT. The name and address of the Corporation's Resident Agent for service of process is:

Rodney A. Medler
200 East Jackson Street
Muncie, IN 47305

SECTION 2. PRINCIPAL OFFICE. The post office address of the principal office of the Corporation is:
200 East Jackson Street
Muncie, IN 47305

ARTICLE V

AUTHORIZED SHARES

SECTION 1. NUMBER OF SHARES. The total number of shares of common stock which the Corporation is to have authority to issue is 20,000,000, all with no par value. The total number of shares of preferred stock the Corporation is to have authority to issue is 500,000, all with no par value.

SECTION 2. TERMS OF SHARES. The authorized shares of "Common Stock" shall be equal to every other share of Common Stock and shall participate equally with other shares of Common Stock in all earnings and profits of the Corporation and on distribution of assets, either on dissolution, liquidation or otherwise. The authorized shares of "Preferred Stock" shall be equal to every other share of Preferred Stock and shall participate equally with other shares of Preferred Stock. The terms of the Preferred Stock and its relative rights, preferences, limitations or restrictions shall be established by the Board of Directors prior to issuance of any Preferred Stock.

SECTION 3. VOTING RIGHTS. Each holder of Common Stock shall have the right to vote on all matters presented to shareholders and shall be entitled on all matters including elections of Directors to one vote for each share of Common Stock registered in his/her name on the books of the Corporation. The voting rights of the Preferred Stock, if any, shall be determined by the Board of Directors prior to issuance of the Preferred Stock.

ARTICLE VI

REQUIREMENTS PRIOR TO DOING BUSINESS

The Corporation will not commence business until consideration of the value of at least One Thousand Dollars (\$1,000.00) has been received for the issuance of shares.

ARTICLE VII

DIRECTORS

SECTION 1. NUMBER. The number of Directors of the Corporation shall not be less than twelve (12) nor more than twenty-one (21), as may be specified from time to time by the Bylaws. If and whenever the Bylaws do not contain a provision specifying the number of Directors, the number shall be sixteen (16). The Directors shall be classified, with respect to the time for which

they severally hold office, into three (3) classes as nearly equal in number as possible, as shall be specified in the Bylaws, one class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1986, another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1987, and another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1988, with each Director to hold office until his successor is elected and qualified. At each annual meeting of shareholders, the successor of each Director whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of his election, or until his successor is elected and qualified.

SECTION 2. NAMES AND POST OFFICE ADDRESSES OF THE DIRECTORS. The names and post office addresses of the initial Board of Directors of the Corporation are:

NAME	NUMBER AND STREET OR BUILDING	CITY	STATE	ZIP CODE
Stefan S. Anderson	2705 W. Twickingham Drive	Muncie	IN	47304
Thomas F. Bluemle	1900 N. Brentwood Lane	Muncie	IN	47304
Frank A. Bracken	1011 E. Parkway Drive	Muncie	IN	47304
Clell W. Douglass	305 Normandy Drive	Muncie	IN	47304
David A. Galliher	2500 W. Berwyn Road	Muncie	IN	47304
William P. Givens	1209 W. Beechwood Avenue	Muncie	IN	47303
John W. Hartmeyer	818 W. Riverside Avenue	Muncie	IN	47303
David W. Howell	Rural Route #2, Box 174	Middletown	IN	47358
Betty J. Kendall	Rural Route #14, Box 425	Muncie	IN	47302
Don E. Marsh	1250 Warwick Road	Muncie	IN	47304
Robert H. Mohlman	3405 N. Vienna Woods Drive	Muncie	IN	47304
Robert R. Park	Rural Route #2, Box 126	Gaston	IN	47342
Peter L. Roesner	2207 W. Wiltshire Road	Muncie	IN	47304
Hamer D. Shafer	3500 W. Gatewood Lane	Muncie	IN	47304
Robert M. Smitson	2601 W. Chelsea Drive	Muncie	IN	47304
Reed D. Voran	2308 W. Wiltshire Road	Muncie	IN	47304

SECTION 3. QUALIFICATIONS OF DIRECTORS. Directors need not be shareholders of the Corporation.

ARTICLE VIII

INCORPORATOR(S)

The name and post office address of the incorporator of the Corporation is:

Stefan S. Anderson
200 East Jackson Street
Muncie, IN 47305

ARTICLE IX

PROVISIONS FOR REGULATION OF BUSINESS
AND CONDUCT OF AFFAIRS OF CORPORATION

SECTION 1. MEETINGS OF SHAREHOLDERS. Meetings of shareholders of the Corporation shall be held at such place, within or without the State of Indiana, as may be specified in the notices or waivers of notice of such meetings.

SECTION 2. MEETINGS OF DIRECTORS. Meetings of Directors of the Corporation shall be held at such place, within or without the State of Indiana, as may be specified in the notices or waivers of notice of such meetings. A member of the Board of Directors or of a committee designated by the Board may participate in a meeting of the Board or committee by means of a conference telephone or similar communications equipment by which all persons participating in the meeting can communicate with each other, and participation by these means constitutes presence in person at the meeting.

SECTION 3. CONSIDERATION FOR SHARES. Shares of stock of the Corporation shall be issued or sold in such manner and for such amount of consideration as may be fixed from time to time by the Board of Directors.

SECTION 4. BYLAWS OF THE CORPORATION. The Board of Directors, unless otherwise provided in the Bylaws or in these Articles of Incorporation, may by a majority vote of the actual number of Directors elected and qualified from time to time make, alter, amend or repeal the Bylaws.

The Board of Directors may, by resolution adopted by a majority of the actual number of Directors elected and qualified, from time to time, designate from among its members an executive committee and one or more other committees, each of which, to the extent provided in the resolution, the Articles of Incorporation, or the Bylaws, may exercise all of the authority of the Board of Directors of the Corporation, including, but not limited to, the authority to issue and sell or approve any contract to issue and sell, securities or shares of the Corporation or designate the terms of a series of a class of securities or shares of the Corporation. The terms which may be affixed by each such committee include, but are not limited to, the price, dividend rate, and provisions of

redemption, a sinking fund, conversion, voting or preferential rights or other features of securities or class or series of a class of shares. Each such committee may have full power to adopt a final resolution which sets forth those terms and to authorize a statement of such terms to be filed with the Secretary of State. However, no such committee has the authority to declare dividends or distributions, amend the Articles of Incorporation or the Bylaws, approve a plan of merger or consolidation even if such plan does not require shareholder approval, reduce earned or capital surplus, authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors, or recommend to the shareholders a voluntary dissolution of the Corporation or a revocation thereof. No member of any such committee shall continue to be a member thereof after he ceases to be a Director of the Corporation. The calling and holding of meetings of any such committee and its method of procedure shall be determined by the Board of Directors. A member of the Board of Directors shall not be liable for any action taken by any such committee if he is not a member of that committee and has acted in good faith and in a manner he reasonably believes is in the best interest of the Corporation.

SECTION 5. CONSENT ACTION BY SHAREHOLDERS. Any action required by statute to be taken at a meeting of the shareholders, or any action which may be taken at a meeting of the shareholders, may be taken without a meeting if, prior to such action, a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof, and such written consent is filed with the minutes of the proceedings of the shareholders.

SECTION 6. CONSENT ACTION BY DIRECTORS. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting, if prior to such action a written consent to such action is signed by all members of the Board of Directors or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or committee.

SECTION 7. INTEREST OF DIRECTORS IN CONTRACTS. Any contract or other transaction between the Corporation or any corporation in which this Corporation owns a majority of the capital stock shall be valid and binding, notwithstanding that the Directors or officers of this Corporation are identical or that some or all of the Directors or officers, or both, are also directors or officers of such other corporation.

Any contract or other transaction between the Corporation and one or more of its Directors or members or employees, or between the Corporation and any firm of which one or more of its Directors are members or employees or in which they are interested, or between the Corporation and any corporation or association of which one or more of its Directors are stockholders, members, directors, officers, or employees, or in which they are interested, shall be valid for all purposes notwithstanding the presence of such Director or Directors at the meeting of the Board of Directors of the Corporation which acts upon, or in reference to, such contract or transaction and notwithstanding his or their participation in such action, if the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall authorize, approve and ratify such contract or transaction by a vote of a majority of the Directors present, such interested Director

or Directors to be counted in determining whether a quorum is present, but not to be counted in calculating the majority of such quorum necessary to carry such vote. This Section shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common and statutory law applicable thereto.

SECTION 8. INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS. Every person who is or was a Director, officer, employee or agent of this Corporation or of any other corporation for which he is or was serving in any capacity at the request of this Corporation shall be indemnified by this Corporation against any and all liability and expense that may be incurred by him in connection with or resulting from or arising out of any claim, action, suit or proceeding, provided that such person is wholly successful with respect thereto or acted in good faith in what he reasonably believed to be in or not opposed to the best interest of this Corporation or such other corporation, as the case may be, and, in addition, in any criminal action or proceeding in which he had no reasonable cause to believe that his conduct was unlawful. As used herein, "claim, action, suit or proceeding" shall include any claim, action, suit or proceeding (whether brought by or in the right of this Corporation or such other corporation or otherwise), civil, criminal, administrative or investigative, whether actual or threatened or in connection with an appeal relating thereto, in which a Director, officer, employee or agent of this Corporation may become involved, as a party or otherwise,

(i) by reason of his being or having been a Director, officer, employee, or agent of this Corporation or such other corporation or arising out of his status as such or

(ii) by reason of any past or future action taken or not taken by him in any such capacity, whether or not he continues to be such at the time such liability or expense is incurred.

The terms "liability" and "expense" shall include, but shall not be limited to, attorneys' fees and disbursements, amounts of judgments, fines or penalties, and amounts paid in settlement by or on behalf of a Director, officer, employee, or agent, but shall not in any event include any liability or expenses on account of profits realized by him in the purchase or sale of securities of the Corporation in violation of the law. The termination of any claim, action, suit or proceeding, by judgment, settlement (whether with or without court approval) or conviction or upon a plea of guilty or of NOLO CONTENDERE, or its equivalent, shall not create a presumption that a Director, officer, employee, or agent did not meet the standards of conduct set forth in this paragraph.

Any such Director, officer, employee, or agent who has been wholly successful with respect to any such claim, action, suit or proceeding shall be entitled to indemnification as a matter of right. Except as provided in the preceding sentence, any indemnification hereunder shall be made only if (i) the Board of Directors acting by a quorum consisting of Directors who are not parties to or who have been wholly successful with respect to such claim, action, suit or proceeding shall find that the Director, officer, employee, or agent has met the standards of conduct set forth in the preceding

paragraph; or (ii) independent legal counsel shall deliver to the Corporation their written opinion that such Director, officer, employee, or agent has met such standards of conduct.

If several claims, issues or matters of action are involved, any such person may be entitled to indemnification as to some matters even though he is not entitled as to other matters.

The Corporation may advance expenses to or, where appropriate, may at its expense undertake the defense of any such Director, officer, employee, or agent upon receipt of an undertaking by or on behalf of such person to repay such expenses if it should ultimately be determined that he is not entitled to indemnification hereunder.

The provisions of this Section shall be applicable to claims, actions, suits or proceedings made or commenced after the adoption hereof, whether arising from acts or omissions to act during, before or after the adoption hereof.

The rights of indemnification provided hereunder shall be in addition to any rights to which any person concerned may otherwise be entitled by contract or as a matter of law and shall inure to the benefit of the heirs, executors and administrators of any such person.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation against any liability asserted against him and incurred by him in any capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Section or otherwise.

SECTION 9. DISTRIBUTIONS OUT OF CAPITAL SURPLUS. The Board of Directors of the Corporation may from time to time distribute to its shareholders out of the capital surplus of the Corporation a portion of its assets, in cash or property, without the assent or vote of the shareholders, provided that with respect to such a distribution the requirements of the Act other than shareholder approval are satisfied.

SECTION 10. POWERS OF DIRECTORS. In addition to the powers and the authority granted by these Articles or by statute expressly conferred, the Board of Directors of the Corporation is hereby authorized to exercise all powers and to do all acts and things as may be exercised or done under the laws of the State of Indiana by a corporation organized and existing under the provisions of the Act and not specifically prohibited or limited by these Articles.

SECTION 11. REMOVAL OF DIRECTORS. Any and all members of the Board of Directors may be removed, with or without cause, at a meeting of the shareholders called expressly for that purpose by the affirmative vote of the holders of not less than two-thirds (2/3) of the outstanding shares of capital stock then entitled to vote on the election of Directors, except that if the Board of Directors, by an affirmative vote of at least two-thirds (2/3) of the entire Board of Directors, recommends

removal of a Director to the shareholders, such removal may be effected by the affirmative vote of the holders of not less than a majority of the outstanding shares of capital stock then entitled to vote on the election of Directors at a meeting of shareholders called expressly for that purpose.

SECTION 12. FAIR PRICE, FORM OF CONSIDERATION AND PROCEDURAL SAFEGUARDS FOR CERTAIN BUSINESS COMBINATIONS.

(A) The affirmative vote of the holders of not less than three-fourths (3/4) of the Voting Shares (as hereinafter defined) of the Corporation shall be required for the authorization or adoption, except as provided in subsection (D) of this Section, of the following transactions:

1. Any merger or consolidation of the Corporation or its subsidiary or subsidiaries (as hereinafter defined) with or into either of the following:
 - (a) 10% Shareholders (as hereinafter defined); or
 - (b) Any other corporation (whether or not itself a 10% Shareholder) which, after such merger or consolidation, would be an Affiliate (as hereinafter defined) of a 10% Shareholder.
2. Any sale, lease, exchange, transfer or other disposition (including, without limitation, the granting of a mortgage or other security interest) to or with any 10% Shareholder of any material part of the assets of the Corporation or any of its subsidiaries; and
3. A liquidation or dissolution of the Corporation or any material subsidiary thereof or adoption of any plan with respect thereto.
4. Any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its subsidiaries or any other transaction (whether or not with or into or otherwise involving a 10% Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the Corporation or any subsidiary which is directly or indirectly owned by any 10% Shareholder; and
5. Any agreement, contract or other arrangement providing for any one or more of the actions specified in the foregoing clauses (A)1. through (A)4.

(B) Prior to the approval of any of the transactions referred to in subsection (A) of this section ("Business Combination"), the Board of Directors of the Corporation shall make an evaluation of all relevant factors and issues arising out of or in connection with any such Business Combination and shall report to the shareholders the conclusion which the Board of Directors reaches from such evaluation. Relevant factors and issues shall include

consideration of the impact which any such Business Combination will have on the community in which the Corporation or its subsidiaries conducts business, the employees of the Corporation or any of its subsidiaries, and the suppliers and customers of the Corporation and its subsidiaries, and shall also include any and all other factors which the Board of Directors in its discretion deems relevant.

(C) The following definitions shall apply when used in this Section:

1. "10% Shareholder" shall mean, in respect of any Business Combination, any person (other than the Corporation) who or which, as of the record date for the determination of shareholders entitled to notice of and to vote on such Business Combination or immediately prior to the consummation of any such Business Combination:
 - (a) Is the beneficial owner (as determined in accordance with Rule 13d-3 promulgated by the Securities and Exchange Commission) ("Beneficial Owner"), directly or indirectly, of not less than ten percent (10%) of the Voting Shares; or
 - (b) Is an Affiliate (as hereinafter defined) of the Corporation and at any time within two years prior thereto was the Beneficial Owner, directly or indirectly, of not less than ten percent (10%) of the then outstanding Voting Shares; or
 - (c) Any individual, corporation, partnership or other person or entity which, together with any of its Affiliates (as hereinafter defined), beneficially owns in the aggregate more than ten percent (10%) of the Voting Shares of the Corporation.
2. "Voting Shares" includes:
 - (a) Any securities of the Corporation which are entitled to vote on any matter referred to in this Section;
 - (b) Any securities, including but not limited to, preferred stock, bonds, debentures, or options, which can be converted into voting securities at the time of the vote referred to in this Section; and
 - (c) Security agreements of any nature for which voting securities are pledged as collateral.
3. "Affiliate" shall include all persons who would be defined as affiliates under Rule 12b-2 under the Securities Exchange Act of 1934.

4. "Subsidiary" means any corporation of which a majority of any class of equity securities (as defined in Rule 3a 11-1 of the general rules and regulations under the Securities Exchange Act of 1934) are owned, directly or indirectly, by the Corporation; provided, however, that for the purposes of the definition of a 10% Shareholder set forth above, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.

5. "Fair Market Value" means:

(1) In the case of stock, in the absence of any determination price as established on a national, regional, or local exchange or over-the-counter market, or in the absence of any market-maker dealing in the stock on a regular basis, the fair market value of such stock on the date in question as determined by the Board in good faith; and

(2) In the case of property other than cash or stock, the fair market value of such property on the date in question as determined by the Board in good faith.

(D) The additional voting requirement set forth in subsection (A) above shall not be applicable, and any such Business Combination shall require the affirmative vote of two-thirds (2/3) of the Voting Shares, if one of the following occurs:

1. The Business Combination shall have been approved by two-thirds (2/3) of the Directors of the Corporation; or

2. All of the following conditions shall have been met:

(a) The aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the greater of (i) and (ii), where (i) is the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the 10% Shareholder or any other party for any shares of Common Stock acquired within the two-year period immediately prior to the first public announcement of the proposal of the Business Combination (the "Announcement Date") or, if higher, the per share price paid in the transaction in which the 10% Shareholder became a 10% Shareholder, and (ii) is the per share book value of the Corporation reported at the end of the fiscal quarter immediately preceding the later of any public announcement of any proposed Business

Combination or the meeting date on which the shareholders are to consider the proposed Business Combination;

(b) The consideration to be received by holders of a particular class of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as the 10% Shareholder has previously paid for shares of such class of Voting Stock. If the 10% Shareholder has paid for shares of any class of Voting Stock with varying forms of consideration, the form of consideration for such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class of Voting Stock previously acquired by it;

(c) A proxy or information statement describing the proposed merger or consolidation and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to shareholders of the Corporation at least thirty (30) days prior to the meeting of shareholders called to consider the proposed Business Combination or, if no meeting, thirty (30) days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

ARTICLE X

AMENDMENTS

These Articles of Incorporation may be amended at any time, subject to the provisions of this Article, by the affirmative vote of a majority of the outstanding shares of stock of the Corporation entitled to vote on such amendment. No amendment shall be adopted which shall repeal, modify, amend, alter or diminish in any way the provisions of Article V, Section 1 of Article VII, Section 4 of Article IX, Section 11 of Article IX, Section 12 of Article IX, or this Article X without the affirmative vote of three-fourths (3/4) of the outstanding shares of stock of the Corporation entitled to vote on such amendment.

The Bylaws of the Corporation may be amended as provided herein and therein except that no amendment shall in any way repeal, modify, amend, alter or diminish the provisions of this Article or the other provisions of the Articles of Incorporation referenced in this Article.

BYLAWS OF
FIRST MERCHANTS CORPORATION

Following are the Bylaws, as amended, of First Merchants Corporation (hereinafter referred to as the "Corporation"), a corporation existing pursuant to the provisions of the Indiana Business Corporation Law, as amended (hereinafter referred to as the "Act"):

ARTICLE I

SECTION 1. NAME. The name of the Corporation is First Merchants Corporation.

SECTION 2. PRINCIPAL OFFICE AND RESIDENT AGENT. The post office address of the principal office of the Corporation is 200 East Jackson Street, Muncie, Indiana 47305, and the name of its Resident Agent in charge of such office is Rodney A. Medler.

SECTION 3. SEAL. The seal of the Corporation shall be circular in form and mounted upon a metal die, suitable for impressing the same upon paper. About the upper periphery of the seal shall appear the words "First Merchants Corporation" and about the lower periphery thereof the word "Muncie, Indiana". In the center of the seal shall appear the word "Seal".

ARTICLE II

The fiscal year of the Corporation shall begin each year on the first day of January and end on the last day of December of the same year.

ARTICLE III

CAPITAL STOCK

SECTION 1. NUMBER OF SHARES AND CLASSES OF CAPITAL STOCK. The total number of shares of capital stock which the Corporation shall have authority to issue shall be as stated in the Articles of Incorporation.

SECTION 2. CONSIDERATION FOR NO PAR VALUE SHARES. The shares of stock of the Corporation without par value shall be issued or sold in such manner and for such amount of consideration as may be fixed from time to time by the Board of Directors. Upon payment of the consideration fixed by the Board of Directors, such shares of stock shall be fully paid and nonassessable.

SECTION 3. CONSIDERATION FOR TREASURY SHARES. Treasury shares may be disposed of by the Corporation for such consideration as may be determined from time to time by the Board of Directors.

SECTION 4. PAYMENT FOR SHARES. The consideration for the issuance of shares of capital stock of the Corporation may be paid, in whole or in part, in money, in other property, tangible or intangible, or in labor actually performed for, or services actually rendered to the Corporation; provided, however, that the part of the surplus of the Corporation which is transferred to stated capital upon the issuance of shares as a share dividend shall be deemed to be the consideration for the issuance of such shares. When payment of the consideration for which a share was authorized to be issued shall have been received by the Corporation, or when surplus shall have been transferred to stated capital upon the issuance of a share dividend, such share shall be declared and taken to be fully paid and not liable to any further call or assessment, and the holder thereof shall not be liable for any further payments thereon. In the absence of actual fraud in the transaction, the judgment of the Board of Directors as to the value of such property, labor or services received as consideration, or the value placed by the Board of Directors upon the corporate assets in the event of a share dividend, shall be conclusive. Promissory notes, uncertified checks, or future services shall not be accepted in payment or part payment of the capital stock of the Corporation, except as permitted by the Act.

SECTION 5. CERTIFICATE FOR SHARES. Each holder of capital stock of the Corporation shall be entitled to a stock certificate, signed by the President or a Vice President and the Secretary or any Assistant Secretary of the Corporation, with the seal of the Corporation thereto affixed, stating the name of the registered holder, the number of shares represented by such certificate, the par value of each share of stock or that such shares of stock are without par value, and that such shares are fully paid and nonassessable. If such shares are not fully paid, the certificates shall be legibly stamped to indicate the per cent which has been paid, and as further payments are made, the certificate shall be stamped accordingly.

If the Corporation is authorized to issue shares of more than one class, every certificate shall state the kind and class of shares represented thereby, and the relative rights, interests, preferences and restrictions of such class, or a summary thereof; provided, that such statement may be omitted from the certificate if it shall be set forth upon the face or back of the certificate that such statement, in full, will be furnished by the Corporation to any shareholder upon written request and without charge.

SECTION 6. FACSIMILE SIGNATURES. If a certificate is countersigned by the written signature of a transfer agent other than the Corporation or its employee, the signatures of the officers of the Corporation may be facsimiles. If a certificate is countersigned by the written signature of a registrar other than the Corporation or its employee, the signatures of the transfer agent and the officers of the Corporation may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of its issue.

SECTION 7. TRANSFER OF SHARES. The shares of capital stock of the Corporation shall be transferable only on the books of the Corporation upon surrender of the certificate or certificates

representing the same, properly endorsed by the registered holder or by his duly authorized attorney or accompanied by proper evidence of succession, assignment or authority to transfer.

SECTION 8. CANCELLATION. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 10 of this Article III.

SECTION 9. TRANSFER AGENT AND REGISTRAR. The Board of Directors may appoint a transfer agent and a registrar for each class of capital stock of the Corporation and may require all certificates representing such shares to bear the signature of such transfer agent and registrar. Shareholders shall be responsible for notifying the Corporation or transfer agent and registrar for the class of stock held by such shareholder in writing of any changes in their addresses from time to time, and failure so to do shall relieve the Corporation, its shareholders, Directors, officers, transfer agent and registrar of liability for failure to direct notices, dividends, or other documents or property to an address other than the one appearing upon the records of the transfer agent and registrar of the Corporation.

SECTION 10. LOST, STOLEN OR DESTROYED CERTIFICATES. The Corporation may cause a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Corporation may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum and in such form as it may direct to indemnify against any claim that may be made against the Corporation with respect to the certificates alleged to have been lost, stolen or destroyed or the issuance of such new certificate. The Corporation, in its discretion, may authorize the issuance of such new certificates without any bond when in its judgment it is proper to do so.

SECTION 11. REGISTERED SHAREHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of such shares to receive dividends, to vote as such owner, to hold liable for calls and assessments, and to treat as owner in all other respects, and shall not be bound to recognize any equitable or other claims to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Indiana.

SECTION 12. OPTIONS TO OFFICERS AND EMPLOYEES. The issuance, including the consideration, of rights or options to Directors, officers or employees of the Corporation, and not to the shareholders generally, to purchase from the Corporation shares of its capital stock shall be approved by the affirmative vote of the holders of a majority of the shares entitled to vote thereon or shall be authorized by and consistent with a plan approved by such a vote of the shareholders.

ARTICLE IV

MEETINGS OF SHAREHOLDERS

SECTION 1. PLACE OF MEETING. Meetings of shareholders of the Corporation shall be held at such place, within or without the State of Indiana, as may from time to time be designated by the Board of Directors, or as may be specified in the notices or waivers of notice of such meetings.

SECTION 2. ANNUAL MEETING. The annual meeting of shareholders for the election of Directors, and for the transaction of such other business as may properly come before the meeting, shall be held on the third Tuesday in April of each year, if such day is not a holiday, and if a holiday, then on the first following day that is not a holiday, or in lieu of such day may be held on such other day as the Board of Directors may set by resolution, but not later than the end of the fifth month following the close of the fiscal year of the Corporation. Failure to hold the annual meeting at the designated time shall not work any forfeiture or a dissolution of the Corporation, and shall not affect otherwise valid corporate acts.

SECTION 3. SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Articles of Incorporation, may be called by the Board of Directors or the President and shall be called by the President or Secretary at the request in writing of a majority of the Board of Directors, or at the request in writing of shareholders holding of record not less than one-fourth (1/4) of all the shares outstanding and entitled by the Articles of Incorporation to vote on the business for which the meeting is being called.

SECTION 4. NOTICE OF MEETINGS. A written or printed notice, stating the place, day and hour of the meeting, and in case of a special meeting, or when required by any other provision of the Act, or of the Articles of Incorporation, as now or hereafter amended, or these Bylaws, the purpose or purposes for which the meeting is called, shall be delivered or mailed by the Secretary, or by the officers or persons calling the meeting, to each shareholder of record entitled by the Articles of Incorporation, as now or hereafter amended, and by the Act to vote at such meeting, at such address as appears upon the records of the Corporation, at least ten (10) days before the date of the meeting. Notice of any such meeting may be waived in writing by any shareholder, if the waiver sets forth in reasonable detail the purpose or purposes for which the meeting is called, and the time and place thereof. Attendance at any meeting in person, or by proxy, shall constitute a waiver of notice of such meeting. Each shareholder, who has in the manner above provided waived notice of a shareholders' meeting, or who personally attends a shareholders' meeting, or is represented thereat by a proxy authorized to appear by an instrument of proxy, shall be conclusively presumed to have been given due notice of such meeting. Notice of any adjourned meeting of shareholders shall not be required to be given if the time and place thereof are announced at the meeting at which the adjournment is taken except as may be expressly required by law.

SECTION 5. ADDRESSES OF SHAREHOLDERS. The address of any shareholder appearing upon the records of the Corporation shall be deemed to be the latest address of such shareholder appearing

on the records maintained by the Corporation or its transfer agent for the class of stock held by such shareholder.

SECTION 6. VOTING AT MEETINGS.

(a) QUORUM. The holders of record of a majority of the issued and outstanding stock of the Corporation entitled to vote at such meeting, present in person or by proxy, shall constitute a quorum at all meetings of shareholders for the transaction of business, except where otherwise provided by law, the Articles of Incorporation or these Bylaws. In the absence of a quorum, any officer entitled to preside at, or act as secretary of, such meeting shall have the power to adjourn the meeting from time to time until a quorum shall be constituted. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting, but only those shareholders entitled to vote at the original meeting shall be entitled to vote at any adjournment or adjournments thereof unless a new record date is fixed by the Board of Directors for the adjourned meeting.

(b) VOTING RIGHTS. Except as otherwise provided by law or by the provisions of the Articles of Incorporation, every shareholder shall have the right at every shareholders' meeting to one vote for each share of stock having voting power, registered in his name on the books of the Corporation on the date for the determination of shareholders entitled to vote, on all matters coming before the meeting including the election of directors. At any meeting of shareholders, every shareholder having the right to vote shall be entitled to vote in person, or by proxy executed in writing by the shareholder or a duly authorized attorney in fact and bearing a date not more than eleven (11) months prior to its execution, unless a longer time is expressly provided therein.

(c) REQUIRED VOTE. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the Act or of the Articles of Incorporation or by these Bylaws, a greater vote is required, in which case such express provision shall govern and control the decision of such question.

SECTION 7. VOTING LIST. The Corporation or its transfer agent shall make, at least five (5) days before each election of directors, a complete list of the shareholders entitled by the Articles of Incorporation, as now or hereafter amended, to vote at such election, arranged in alphabetical order, with the address and number of shares so entitled to vote held by each, which list shall be on file at the principal office of the Corporation and subject to inspection by any shareholder. Such list shall be produced and kept open at the time and place of election and subject to the inspection of any shareholder during the holding of such election. The original stock register or transfer book, or a duplicate thereof kept in the State of Indiana, shall be the only evidence as to who are the shareholders entitled to examine such list or the stock ledger or transfer book or to vote at any meeting of the shareholders.

SECTION 8. FIXING OF RECORD DATE TO DETERMINE SHAREHOLDERS ENTITLED TO VOTE. The Board of Directors may prescribe a period not exceeding fifty (50) days prior to meetings of the

shareholders, during which no transfer of stock on the books of the Corporation may be made; or, in lieu of prohibiting the transfer of stock may fix a day and hour not more than fifty (50) days prior to the holding of any meeting of shareholders as the time as of which shareholders entitled to notice of, and to vote at, such meeting shall be determined, and all persons who are holders of record of voting stock at such time, and no others, shall be entitled to notice of, and to vote at, such meeting. In the absence of such a determination, such date shall be ten (10) days prior to the date of such meeting.

SECTION 9. NOMINATIONS FOR DIRECTOR. Nominations for election to the Board of Directors may be made by the Board of Directors or by a shareholder of any outstanding class of capital stock of the Corporation entitled to vote for the election of directors. Nominations, other than those made by or on behalf of the existing management of the Corporation, shall be made in writing and shall be delivered or mailed to the President of the Corporation not less than ten (10) days nor more than fifty (50) days prior to any meeting of shareholders called for the election of Directors. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the Corporation that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the Corporation owned by the notifying shareholder. Nominations not made in accordance herewith may, in his discretion, be disregarded by the chairman of the meeting, and upon his instructions, the vote tellers may disregard all votes cast for each such nominee.

ARTICLE V

BOARD OF DIRECTORS

SECTION 1. ELECTION, NUMBER AND TERM OF OFFICE. The number of Directors of the Corporation to be elected by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors shall be twelve (12) unless changed by amendment of this Section by a two-thirds (2/3) vote of the Board of Directors.

The Directors shall be divided into three (3) classes as nearly equal in number as possible, all Directors to serve three (3) year terms except as provided in the third paragraph of this Section. One class shall be elected at each annual meeting of the shareholders, by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors. Unless the number of Directors is changed by amendment of this Section, each class shall have four (4) Directors. No decrease in the number of Directors shall have the effect of shortening the term of any incumbent Director.

No person shall serve as a Director subsequent to the annual meeting of shareholders following the end of the calendar year in which such person attains the age of seventy (70) years; however, for current Directors who served as a director of the Corporation's subsidiary, The Merchants National Bank of Muncie (now known as First Merchants Bank, N.A.) on or before January 1, 1971, such age shall be seventy-two (72) years. The term of a Director shall expire as of

the annual meeting following which the Director is no longer eligible to serve under the provisions of this paragraph, even if fewer than three (3) years have elapsed since the commencement of the Director's term.

Except in the case of earlier resignation, removal or death, all Directors shall hold office until their respective successors are chosen and qualified.

The provisions of this Section of the Bylaws may not be changed or amended except by a two-thirds (2/3) vote of the Board of Directors.

SECTION 2. VACANCIES. Any vacancy occurring in the Board of Directors caused by resignation, death or other incapacity, or an increase in the number of Directors, shall be filled by a majority vote of the remaining members of the Board of Directors, until the next annual meeting of the shareholders, or at the discretion of the Board of Directors, such vacancy may be filled by a vote of the shareholders at a special meeting called for that purpose.

SECTION 3. ANNUAL MEETING OF DIRECTORS. The Board of Directors shall meet each year immediately after the annual meeting of the shareholders, at the place where such meeting of the shareholders has been held either within or without the State of Indiana, for the purpose of organization, election of officers, and consideration of any other business that may properly come before the meeting. No notice of any kind to either old or new members of the Board of Directors for such annual meeting shall be necessary.

SECTION 4. REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at such times and places, either within or without the State of Indiana, as may be fixed by the Directors. Such regular meetings of the Board of Directors may be held without notice or upon such notice as may be fixed by the Directors.

SECTION 5. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President, or by not less than a majority of the members of the Board of Directors. Notice of the time and place, either within or without the State of Indiana, of a special meeting shall be served upon or telephoned to each Director at least twenty-four (24) hours, or mailed, telegraphed or cabled to each Director at his usual place of business or residence at least forty-eight (48) hours, prior to the time of the meeting. Directors, in lieu of such notice, may sign a written waiver of notice either before the time of the meeting, at the meeting or after the meeting. Attendance by a Director in person at any special meeting shall constitute a waiver of notice.

SECTION 6. QUORUM. A majority of the actual number of Directors elected and qualified, from time to time, shall be necessary to constitute a quorum for the transaction of any business except the filling of vacancies, and the act of a majority of the Directors present at the meeting, at which a quorum is present, shall be the act of the Board of Directors, unless the act of a greater number is required by the Act, by the Articles of Incorporation, or by these Bylaws. A Director, who is present at a meeting of the Board of Directors, at which action on any corporate matter is taken, shall be conclusively presumed to have assented to the action taken, unless (a) his dissent shall be

affirmatively stated by him at and before the adjournment of such meeting (in which event the fact of such dissent shall be entered by the secretary of the meeting in the minutes of the meeting), or (b) he shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. The right of dissent provided for by either clause (a) or clause (b) of the immediately preceding sentence shall not be available, in respect of any matter acted upon at any meeting, to a Director who voted at the meeting in favor of such matter and did not change his vote prior to the time that the result of the vote on such matter was announced by the chairman of such meeting.

A member of the Board of Directors may participate in a meeting of the Board by means of a conference telephone or similar communications equipment by which all Directors participating in the meeting can communicate with each other, and participation by these means constitutes presence in person at the meeting.

SECTION 7. CONSENT ACTION BY DIRECTORS. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if prior to such action a written consent to such action is signed by all members of the Board of Directors or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or committee.

SECTION 8. REMOVAL. Any or all members of the Board of Directors may be removed, with or without cause, at a meeting of the shareholders called expressly for that purpose by the affirmative vote of the holders of not less than two-thirds (2/3) of the outstanding shares of capital stock then entitled to vote on the election of Directors, except that if the Board of Directors, by an affirmative vote of at least two-thirds (2/3) of the entire Board of Directors, recommends removal of a Director to the shareholders, such removal may be effected by the affirmative vote of the holders of not less than a majority of the outstanding shares of capital stock then entitled to vote on the election of Directors at a meeting of shareholders called expressly for that purpose.

The provisions in this Section of the Bylaws may not be changed or amended except by a two-thirds (2/3) vote of the Board of Directors.

SECTION 9. DIVIDENDS. The Board of Directors shall have power, subject to any restrictions contained in the Act or in the Articles of Incorporation and out of funds legally available therefor, to declare and pay dividends upon the outstanding capital stock of the Corporation as and when they deem expedient. Before declaring any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time in their absolute discretion deem proper for working capital, or as a reserve or reserves to meet contingencies or for such other purposes as the Board of Directors may determine, and the Board of Directors may in their absolute discretion modify or abolish any such reserve in the manner in which it was created.

SECTION 10. FIXING OF RECORD DATE TO DETERMINE SHAREHOLDERS ENTITLED TO RECEIVE CORPORATE BENEFITS. The Board of Directors may fix a day and hour not exceeding fifty (50) days

preceding the date fixed for payment of any dividend or for the delivery of evidence of rights, or for the distribution of other corporate benefits, or for a determination of shareholders for any other purpose, as a record time for the determination of the shareholders entitled to receive any such dividend, rights or distribution, and in such case only shareholders of record at the time so fixed shall be entitled to receive such dividend, rights or distribution. If no record date is fixed for the determination of shareholders entitled to receive payment of a dividend, the end of the day on which the resolution of the Board of Directors declaring such dividend is adopted shall be the record date for such determination.

SECTION 11. INTEREST OF DIRECTORS IN CONTRACTS. Any contract or other transaction between the Corporation or any corporation in which this Corporation owns a majority of the capital stock shall be valid and binding, notwithstanding that the Directors or officers of this Corporation are identical or that some or all of the Directors or officers, or both, are also directors or officers of such other corporation.

Any contract or other transaction between the Corporation and one or more of its Directors or members or employees, or between the Corporation and any firm of which one or more of its Directors are members or employees or in which they are interested, or between the Corporation and any corporation or association of which one or more of its Directors are stockholders, members, directors, officers, or employees or in which they are interested, shall be valid for all purposes, notwithstanding the presence of such Director or Directors at the meeting of the Board of Directors of the Corporation which acts upon, or in reference to, such contract or transaction and notwithstanding his or their participation in such action, if the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall authorize, approve and ratify such contract or transaction by a vote of a majority of the Directors present, such interested Director or Directors to be counted in determining whether a quorum is present, but not to be counted in calculating the majority of such quorum necessary to carry such vote. This Section shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common and statutory law applicable thereto.

SECTION 12. COMMITTEES. The Board of Directors may, by resolution adopted by a majority of the actual number of Directors elected and qualified, from time to time, designate from among its members an executive committee and one or more other committees.

During the intervals between meetings of the Board of Directors, any executive committee so appointed, unless expressly provided otherwise by law or these Bylaws, shall have and may exercise all the authority of the Board of Directors, including, but not limited to, the authority to issue and sell or approve any contract to issue or sell, securities or shares of the Corporation or designate the terms of a series or class of securities or shares of the Corporation. The terms which may be affixed by the executive committee include, but are not limited to, the price, dividend rate, and provisions of redemption, a sinking fund, conversion, voting, or preferential rights or other features of securities or class or series of a class of shares. Such committee may have full power to adopt a final resolution which sets forth these terms and to authorize a statement of such terms to be filed with the Secretary of State. However, such executive committee shall not have the authority

to declare dividends or distributions, amend the Articles of Incorporation or the Bylaws, approve a plan of merger or consolidation, even if such plan does not require shareholder approval, reduce earned or capital surplus, authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors, or recommend to the shareholders a voluntary dissolution of the Corporation or a revocation thereof.

The Board of Directors may, in its discretion, constitute and appoint other committees, in addition to an executive committee, to assist in the management and control of the affairs of the Corporation, with responsibilities and powers appropriate to the nature of the several committees and as provided by the Board of Directors in the resolution of appointment or in subsequent resolutions and directives. Such committees may include, but are not limited to, an audit committee and a compensation and human resources committee.

No member of any committee appointed by the Board of Directors shall continue to be a member thereof after he ceases to be a Director of the Corporation. However, where deemed in the best interests of the Corporation, to facilitate communication and utilize special expertise, directors of the Corporation's affiliated banks and corporations may be appointed to serve on such committees, as "affiliate representatives." Such affiliate representatives may attend and participate fully in meetings of such committees, but they shall not be entitled to vote on any matter presented to the meeting nor shall they be counted for the purpose of determining whether a quorum exists. The calling and holding of meetings of any such committee and its method of procedure shall be determined by the Board of Directors. To the extent permitted by law, a member of the Board of Directors, and any affiliate representative, serving on any such committee shall not be liable for any action taken by such committee if he has acted in good faith and in a manner he reasonably believes is in the best interests of the Corporation. A member of a committee may participate in a meeting of the committee by means of a conference telephone or similar communications equipment by which all members participating in the meeting can communicate with each other, and participation by these means constitutes presence in person at the meeting.

ARTICLE VI

OFFICERS

SECTION 1. PRINCIPAL OFFICERS. The principal officers of the Corporation shall be a Chairman of the Board, Vice Chairman of the Board, a President, one (1) or more Vice Presidents, a Treasurer and a Secretary. The Corporation may also have, at the discretion of the Board of Directors, such other subordinate officers as may be appointed in accordance with the provisions of these Bylaws. Any two (2) or more offices may be held by the same person, except the duties of President and Secretary shall not be performed by the same person. No person shall be eligible for the office of Chairman of the Board, Vice Chairman of the Board, or President who is not a Director of the Corporation.

SECTION 2. ELECTION AND TERM OF OFFICE. The principal officers of the Corporation shall be chosen annually by the Board of Directors at the annual meeting thereof. Each such officer shall

hold office until his successor shall have been duly chosen and qualified, or until his death, or until he shall resign, or shall have been removed in the manner hereinafter provided.

SECTION 3. REMOVAL. Any principal officer may be removed, either with or without cause, at any time, by resolution adopted at any meeting of the Board of Directors by a majority of the actual number of Directors elected and qualified from time to time.

SECTION 4. SUBORDINATE OFFICERS. In addition to the principal officers enumerated in Section 1 of this Article VI, the Corporation may have one or more Assistant Treasurers, one or more Assistant Secretaries and such other officers, agents and employees as the Board of Directors may deem necessary, each of whom shall hold office for such period, may be removed with or without cause, have such authority, and perform such duties as the President, or the Board of Directors may from time to time determine. The Board of Directors may delegate to any principal officer the power to appoint and to remove any such subordinate officers, agents or employees.

SECTION 5. RESIGNATIONS. Any officer may resign at any time by giving written notice to the Chairman of the Board of Directors, or to the President, or to the Secretary. Any such resignation shall take effect upon receipt of such notice or at any later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6. VACANCIES. Any vacancy in any office for any cause may be filled for the unexpired portion of the term in the manner prescribed in these Bylaws for election or appointment to such office for such term.

SECTION 7. CHAIRMAN OF THE BOARD. The Chairman of the Board, who shall be chosen from among the Directors, shall preside at all meetings of shareholders and at all meetings of the Board of Directors. He shall perform such other duties and have such other powers as, from time to time, may be assigned to him by the Board of Directors.

SECTION 8. VICE CHAIRMAN OF THE BOARD. The Vice Chairman of the Board, who shall be chosen from among the Directors, shall act in the absence of the Chairman of the Board. He shall perform such other duties and have such other powers as, from time to time, may be assigned to him by the Board of Directors.

SECTION 9. PRESIDENT. The President, who shall be chosen from among the Directors, shall be the chief executive officer of the Corporation and as such shall have general supervision of the affairs of the Corporation, subject to the control of the Board of Directors. He shall be an EX OFFICIO member of all standing committees. In the absence or disability of the Chairman of the Board and Vice Chairman of the Board, the President shall preside at all meetings of shareholders and at all meetings of the Board of Directors. Subject to the control and direction of the Board of Directors, the President may enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. In general, he shall perform all duties and have all powers incident to the

office of President, as herein defined, and all such other duties and powers as, from time to time, may be assigned to him by the Board of Directors.

SECTION 10. VICE PRESIDENTS. The Vice Presidents in the order of their seniority, unless otherwise determined by the Board of Directors, shall, in the absence or disability of the President and Executive Vice President, perform the duties and exercise the powers of the President. They shall perform such other duties and have such other powers as the President or the Board of Directors may from time to time assign.

SECTION 11. TREASURER. The Treasurer shall have charge and custody of, and be responsible for, all funds and securities of the Corporation and shall deposit all such funds in the name of the Corporation in such banks or other depositories as shall be selected by the Board of Directors. He shall upon request exhibit at all reasonable times his books of account and records to any of the Directors of the Corporation during business hours at the office of the Corporation where such books and records shall be kept; shall render upon request by the Board of Directors a statement of the condition of the finances of the Corporation at any meeting of the Board of Directors or at the annual meeting of the shareholders; shall receive, and give receipt for, moneys due and payable to the Corporation from any source whatsoever; and in general, shall perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the President or the Board of Directors. The Treasurer shall give such bond, if any, for the faithful discharge of his duties as the Board of Directors may require.

SECTION 12. SECRETARY. The Secretary shall keep or cause to be kept in the books provided for that purpose the minutes of the meetings of the shareholders and of the Board of Directors; shall duly give and serve all notices required to be given in accordance with the provisions of these Bylaws and by the Act; shall be custodian of the records and of the seal of the Corporation and see that the seal is affixed to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these Bylaws; and, in general, shall perform all duties incident to the office of Secretary and such other duties as may, from time to time, be assigned to him by the President or the Board of Directors.

SECTION 13. SALARIES. The salaries of the principal officers shall be fixed from time to time by the Board of Directors, and the salaries of any subordinate officers may be fixed by the President.

SECTION 14. VOTING CORPORATION'S SECURITIES. Unless otherwise ordered by the Board of Directors, the Chairman of the Board, the President and Secretary, and each of them, are appointed attorneys and agents of the Corporation, and shall have full power and authority in the name and on behalf of the Corporation, to attend, to act, and to vote all stock or other securities entitled to be voted at any meetings of security holders of corporations, or associations in which the Corporation may hold securities, in person or by proxy, as a stockholder or otherwise, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities, and which as the owner thereof the Corporation might have possessed and exercised, if present, or to consent in writing to any action by any such other corporation or association. The

Board of Directors by resolution from time to time may confer like powers upon any other person or persons.

ARTICLE VII

INDEMNIFICATION

SECTION 1. INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS. Every person who is or was a Director, officer, employee or agent of this Corporation or of any other corporation for which he is or was serving in any capacity at the request of this Corporation shall be indemnified by this Corporation against any and all liability and expense that may be incurred by him in connection with or resulting from or arising out of any claim, action, suit or proceeding, provided that such person is wholly successful with respect thereto or acted in good faith in what he reasonably believed to be in or not opposed to the best interest of this Corporation or such other corporation, as the case may be, and, in addition, in any criminal action or proceeding in which he had no reasonable cause to believe that his conduct was unlawful. As used herein, "claim, action, suit or proceeding" shall include any claim, action, suit or proceeding (whether brought by or in the right of this Corporation or such other corporation or otherwise), civil, criminal, administrative or investigative, whether actual or threatened or in connection with an appeal relating thereto, in which a Director, officer, employee or agent of this Corporation may become involved, as a party or otherwise,

- (i) by reason of his being or having been a Director, officer, employee, or agent of this Corporation or such other corporation or arising out of his status as such or
- (ii) by reason of any past or future action taken or not taken by him in any such capacity, whether or not he continues to be such at the time such liability or expense is incurred.

The terms "liability" and "expense" shall include, but shall not be limited to, attorneys' fees and disbursements, amounts of judgments, fines or penalties, and amounts paid in settlement by or on behalf of a Director, officer, employee, or agent, but shall not in any event include any liability or expenses on account of profits realized by him in the purchase or sale of securities of the Corporation in violation of the law. The termination of any claim, action, suit or proceeding, by judgment, settlement (whether with or without court approval) or conviction or upon a plea of guilty or of NOLO CONTENDERE, or its equivalent, shall not create a presumption that a Director, officer, employee, or agent did not meet the standards of conduct set forth in this paragraph.

Any such Director, officer, employee, or agent who has been wholly successful with respect to any such claim, action, suit or proceeding shall be entitled to indemnification as a matter of right. Except as provided in the preceding sentence, any indemnification hereunder shall be made only if

- (i) the Board of Directors acting by a quorum consisting of Directors who are not parties to or who have been wholly successful with respect to such claim, action, suit or proceeding shall find that the Director, officer, employee, or agent has met the standards of conduct set forth in the preceding paragraph; or
- (ii) independent legal counsel shall deliver to the Corporation their written opinion that such Director, officer, employee, or agent has met such standards of conduct.

If several claims, issues or matters of action are involved, any such person may be entitled to indemnification as to some matters even though he is not entitled as to other matters.

The Corporation may advance expenses to or, where appropriate, may at its expense undertake the defense of any such Director, officer, employee, or agent upon receipt of an undertaking by or on behalf of such person to repay such expenses if it should ultimately be determined that he is not entitled to indemnification hereunder.

The provisions of this Section shall be applicable to claims, actions, suits or proceedings made or commenced after the adoption hereof, whether arising from acts or omissions to act during, before or after the adoption hereof.

The rights of indemnification provided hereunder shall be in addition to any rights to which any person concerned may otherwise be entitled by contract or as a matter of law and shall inure to the benefit of the heirs, executors and administrators of any such person.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation against any liability asserted against him and incurred by him in any capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Section or otherwise.

ARTICLE VIII

AMENDMENTS

Except as expressly provided herein or in the Articles of Incorporation, the Board of Directors may make, alter, amend or repeal these Bylaws by an affirmative vote of a majority of the actual number of Directors elected and qualified.

FIRST MERCHANTS CORPORATION

AND

FIRST MERCHANTS BANK, N.A.

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MANAGEMENT INCENTIVE PLAN

FOR

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Prepared by:

Mercer Meidinger Hansen, Inc.
120 Monument Circle, Suite 308
Indianapolis, IN 46204

Approved by:

Board of Directors Compensation Committee

April 21, 1988 (ORIGINAL APPROVAL)
February 19, 1997 (CURRENT APPROVAL)

PLAN SUMMARY

OBJECTIVE: First Merchants Corporation and First Merchants Bank, N.A. believe that performance-based pay should be a significant component of the total compensation package.

The purpose of this plan is to provide incentive compensation which will:

1. Link compensation to organization and individual goal achievement.
2. Motivate and retain key personnel.
3. Attract qualified talent to the organization.

ADMINISTRATION: The plan will be administered by the Compensation Committee of the Board of Directors. The Committee will have the authority to:

- Modify the formal plan document
- Make the final award determinations
- Set conditions for eligibility and award
- Define extraordinary accounting events in calculating earnings
- Establish future payout schedules
- Determine circumstances/causes for which payouts can be withheld
- Abolish the plan

ELIGIBILITY: Eligibility will be determined annually by the Compensation Committee of the Board of Directors.

In order to receive an award, an incumbent must be employed at the time of the award except for conditions of death or retirement.

AWARD LEVELS: Award levels will vary with organizational level:

For the _____ of First Merchants Corporation and First Merchants Bank, the maximum bonus will be ____% of base salary.

The actual bonus will be calculated according to the attached schedules.

The _____ will not be eligible to participate in the bank-wide Employee Performance Bonus Plan of First Merchants Bank.

ANNUAL WEIGHTING: Beginning in 1997, the current year (1997) will have a weight of 60% and the average of the two previous years will have a weight of 40%. For purposes of calculating the current year bonus, the percentage of maximum payout will be used in the weighting calculation.

FORM OF AWARD: Payout will be in cash; there will be no deferral or vesting provisions.

AWARD TIMING: Awards will be made not later than the 15th day of the month following the month in which the audited financial statement is delivered.

PRO-RATA AWARD: Participants employed for a period less than the full fiscal year will receive a payout prorated to their length of employment, so long as they have service of at least 90 days during the performance year.

PERFORMANCE CRITERIA AND WEIGHTS: For the _____, performance criteria will include the performance of First Merchants Corporation and First Merchants Bank. The weighting of these criteria shall be as follows:

PERFORMANCE CRITERIA WEIGHT

(SEE ATTACHED SCHEDULE A)

PAYOUT
THRESHOLD
CONDITIONS:

Award schedules, attached hereto, define the minimum performance levels for which Incentive Compensation Awards will be made. Awards will be made if performance equals or exceeds the minimum performance levels shown on any one of the attached schedules. For the current year, minimum ("THRESHOLD") performance levels are:

(SEE ATTACHED SCHEDULE A)

The total incentive award is calculated by adding the applicable awards derived from each of the schedules. A schedule will be utilized for this purpose only if the actual performance level is above the schedule's minimum.

Approved by the Compensation Committee:
April 21, 1988 (ORIGINAL APPROVAL)
February 19, 1997 (CURRENT APPROVAL)

SCHEDULE A TO FIRST MERCHANTS CORPORATION MANAGEMENT INCENTIVE PLAN

The Corporation's Management Incentive Plan covering its executive officers are all in the form of Exhibit 10.1 and are substantially identical, except as noted below. Actual targets are not disclosed.

The maximum bonus under the Management Incentive Plan for Chief Executive Officer is 40% of base salary. The performance criteria used include the Corporation's return on assets, return on equity, efficiency ratio and net income growth.

The maximum bonus under the Management Incentive Plan for Chief Operating Officer is 40% of base salary. The performance criteria used include the Corporation's return on equity and the Corporation's and First Merchants Bank, N.A.'s return on assets, efficiency ratio and net income growth.

The maximum bonus under the Management Incentive Plan for Administrative Officers (Chief Financial Officer and General Counsel) is 25% of base salary. The performance criteria used include the Corporation's and First Merchants Bank, N.A.'s return on assets, efficiency ratio and net income growth.

The maximum bonus under the Management Incentive Plan for Chief Executive Officer of the Union County National Bank of Liberty is 25% of base salary. The performance criteria used include the Union County National Bank's return on assets, efficiency ratio, net income growth and percentage of annual plan objectives achieved.

FIRST MERCHANTS BANK, N.A.
UNFUNDED DEFERRED COMPENSATION PLAN
(AS AMENDED THROUGH 12/10/96)

The Bank hereby adopts and establishes an Unfunded Deferred Compensation Plan ("PLAN") for its non-employee directors, effective as of November 13, 1973, as follows:

1. Any duly elected non-employee director of the Bank may, by written election duly filed with the Bank on or before December 31st of any year, elect to participate in the Plan by deferring the receipt of all or any specified part of his annual Director's fees for one or more succeeding calendar years.

2. Any non-employee of the Bank elected to fill a vacancy on the Bank's Board of Directors who was not a director on the preceding December 31st may, by written election filed with the Bank before his term begins, elect to defer all or a specified part of his annual director's fees for the balance of the calendar year following such election and for succeeding calendar years.

3. An election to defer such director's fees continues from year to year unless and until the director terminates such election by written request; provided, however, in the event of a termination the sums previously deferred at the request of the participating director cannot be distributed until the director is no longer a director of either the Bank, its parent, First Merchants Corporation ("Corporation"), or any of the Corporation's other affiliate banks or corporations.

4. The Bank will maintain on its books of account a complete separate listing by memorandum of all fees deferred by each participating director and will credit such deferred compensation account not less often than quarterly with that rate of interest then being paid by the Bank on its 18-month variable rate individual retirement accounts. The rate of interest to be credited on directors' deferred compensation accounts, or the method of calculating such rate, may be prospectively changed from time to time by a majority vote of the directors who are not participating and do not have an account balance under the Plan at the time such action is taken.

5. Except as above provided, by the acceptance of each such deferred compensation account the Bank shall become contractually obligated to pay all such sums (principal and interest) held in a deferred compensation account when and as requested in writing by the participating director. Such contractual obligation shall be unsecured and shall not be evidenced by any other written instrument or instruments. By the adoption of this Plan by the Bank it is intended that all such funds so accrued and the interest earned thereon shall not be regarded as the receipt of income to the participating director for federal income tax purposes until the taxable year or years wherein such funds are actually paid out by the Bank to the participating director.

6. All amounts deferred under this Plan, together with accumulated interest earned thereon shall be distributed by the Bank over the period chosen by the director upon first electing to participate in the Plan. Such distribution shall commence as of the first day of the calendar year immediately following the year in which the director is no longer a director of either the Bank, the Corporation, or any of the Corporation's other affiliate banks or corporations. Notwithstanding the foregoing, a director or former director may request a lump sum distribution of all or part of the director's previously deferred amounts in the event of an unanticipated emergency which was not reasonably foreseeable by the director and which has caused the director severe immediate financial hardship. The decision whether to approve or deny such request shall be based on all relevant facts and circumstances reasonably available to the Board, and shall be made by a majority vote of the directors who are not participating and do not have an account balance under the Plan at the time the request is made.

7. Upon the death of a participating director or former participating director prior to the expiration of the period during which the deferred amounts are payable, all remaining deferred fees and interest earned thereon shall be paid over the remaining portion of the period so elected to his designated beneficiary or beneficiaries until all account sums and interest earned thereon have been fully paid out.

8. In the event the director is no longer a director of either the Bank, the Corporation, or any of the Corporation's other affiliate banks or corporations, and becomes a proprietor, officer, partner, employee, or otherwise becomes affiliated with any business in competition with the Bank, the Corporation, or any of the Corporation's affiliates, then and in that event, the entire balance of the director's deferred fees, including interest, may at the discretion of the continuing directors of the Bank be paid immediately to the director in a lump sum.

9. It is intended that the Unfunded Deferred Compensation Plan established by this Resolution shall comply with the requirements of Revenue Ruling 71-419; and the Bank, its Board of Directors, and the Plan's participating directors, in the implementation of the Plan, intend to be governed by the procedures and requirements therein outlined.

CHANGE OF CONTROL AGREEMENT

This Agreement is made and entered into this _____ day of _____, 1996, by and between First Merchants Bank, National Association (hereafter referred to as "Bank"), and First Merchants Corporation, an Indiana corporation which owns Bank (hereinafter referred to as "Corporation"), both with their principal offices and business located at 200 East Jackson Street, Muncie, Indiana, and _____ (hereinafter, referred to as "Executive" of Muncie, Indiana).

WHEREAS, the Bank and Corporation consider the continuance of proficient and experienced management to be essential to protecting and enhancing the best interest of the Bank, Corporation and its shareholders, and

WHEREAS, the Bank and Corporation desire to assure the continued services of Executive on behalf of Bank and Corporation, and

WHEREAS, the Bank and Corporation recognize that if faced with a proposal for Change of Control, as hereinafter defined, Executive will have a significant role in helping the Board of Directors assess the options and advising the Board of Directors on what is in the best interests of the Bank and Corporation and the shareholders, and it is necessary for Executive to be able to provide this advice and counsel without being influenced by the uncertainties of the Executive's own situation, and

WHEREAS, the Bank and Corporation desire to provide fair and reasonable benefits to Executive on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of these promises, the mutual covenants and undertakings herein contained and the continued employment of Executive by the Corporation as its _____ and by the Bank as its _____, the Bank, the Corporation and the Executive, each intending to be legally bound, covenant and agree as follows:

1. TERM OF AGREEMENT.

The Agreement shall continue in effect through December 31, 1997; provided, however, that commencing on December 31, 1997, and each December 31 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than October 31st immediately preceding each December 31, and every October 31, thereafter, the Bank or Corporation shall have given notice that it does not wish to extend this Agreement; and provided, further, that if a Change of Control of the Bank or Corporation as defined in Section 2, shall have occurred during the original or extended term of this Agreement, this Agreement shall continue in effect for a period of not less than twenty-four (24) months beyond the month in which such Change of Control occurred.

2. DEFINITIONS.

For purposes of this Agreement, the terms of this Article shall have the following meaning throughout this Agreement:

(A) CAUSE: "Cause" shall be defined as:

- (1) professional incompetence;
- (2) willful misconduct;
- (3) personal dishonesty;
- (4) breach of fiduciary duty involving personal profit;
- (5) intentional failure to perform stated duties;
- (6) willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist orders; and
- (7) any intentional material breach of any term, condition or covenant of this Agreement.

(B) CHANGE OF CONTROL: "Change of Control" shall mean the following:

- (1) any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than the Corporation, is or becomes the Beneficial Owner (as defined

in Rule 13d-3 under the Exchange Act) directly or indirectly of securities of the Corporation or Bank representing twenty-five percent (25%) or more of the combined voting power of the Bank or Corporation's then outstanding securities;

(2) persons constituting a majority of the Board of Directors of the Corporation or Bank were not directors of Employer for at least twenty-four (24) preceding months;

(3) the stockholders of the Bank or Corporation approve a merger or consolidation of the Bank or Corporation with any other corporation, other than (1) a merger or consolidation which would result in the voting securities of the Bank or Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50 percent of the combined voting power of the voting securities of the Bank or Corporation or such surviving entity outstanding immediately after such merger or consolidation or (2) a merger or consolidation effected to implement a recapitalization of the Bank or corporation (or similar transaction) in which no person acquires 50 percent or more of the combined voting power of the Bank or Corporation's then outstanding securities; or

(4) the stockholders of the Corporation approve a plan of complete liquidation of the Bank or Corporation or an agreement for the sale or disposition by the Bank or Corporation of all or substantially all of the Corporation's assets.

(C) DATE OF TERMINATION: "Date of Termination" shall mean the date stated in the Notice of Termination (as hereinafter defined) or thirty (30) days from the date of delivery of such notice, as hereinafter defined, whichever comes first.

(D) DISABILITY: "Disability" shall mean the definition of such term as used in the disability policy then in effect for the Bank or Corporation and a determination of full disability by the parties; provided that in the event there is no disability insurance then in force, "disability" shall mean incapacity due to physical or mental illness, which will have caused Executive to have been unable to perform his duties with the Bank and/or Corporation on a full time basis for 180 consecutive calendar days.

(E) NOTICE OF TERMINATION: "Notice of Termination" shall mean a written notice, communicated to the other parties hereto, which shall indicate the specific termination provisions of this Agreement relied upon and set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provisions so indicated.

(F) RETIREMENT: "Retirement" shall mean termination of employment by the Executive in accordance with Bank's or Corporation's normal retirement policy generally applicable to its salaried employees in effect at the time of Change of Control

(3) TERMINATION

(A) GENERAL. If any of the events described in Section 2 constituting a Change in Control of the Bank or Corporation shall have occurred, the Executive shall be entitled to the benefits provided in Section 4 upon the subsequent termination of the Executive's employment during the term of this Agreement unless such termination is (a) because of the death or Disability of the Executive, (b) by the Bank or Corporation for Cause or (c) by the Executive other than on account of Constructive Termination (as hereinafter defined).

(B) If, following a Change of Control, the Executive's employment shall be terminated for Cause, the Bank and Corporation shall pay him his full salary through the Date of Termination at the rate in effect on the date of the Notice of Termination, and the Bank and Corporation shall have no further obligations under this Agreement. If, following a Change of Control, the Executive's

employment shall be terminated as a result of death or Disability, compensation to the Executive shall be made pursuant to the Bank's and Corporation's then existing policies on death or Disability and the Bank and the Corporation shall have no further obligations under this Agreement. If, following a Change of Control, the Executive's employment is terminated by and at the request of the Executive as a result of Retirement, compensation to the Executive shall be made pursuant to the Bank's and Corporation's normal retirement policy generally applicable to its salaried employees at the time of Change of Control and the Bank and Corporation shall have no further obligations under this Agreement.

(C) CONSTRUCTIVE TERMINATION. The Executive shall be entitled to terminate his employment upon the occurrence of Constructive Termination. For purposes of this Agreement, "Constructive Termination" shall mean, without the Executive's express written consent, the occurrence, after a Change in Control of the Bank or Corporation, of any of the following circumstances:

(1) the assignment to the Executive of any duties inconsistent (unless in the nature of a promotion) with the position in the Bank or Corporation that the Executive held immediately prior to the Change in Control of the Bank or Corporation, or a significant adverse reduction or alteration in the nature or status of the Executive's position, duties or responsibilities or the conditions of the Executive's employment from those in effect immediately prior to such Change in Control;

(2) a reduction by the Bank or Corporation in the Executive's annual base salary as in effect immediately prior to the Change in Control of the Bank or Corporation or as the same may be increased from time to time, except for across-the-board salary reductions similarly affecting all management personnel of the Bank or Corporation;

(3) the Bank and/or Corporation requires Executive to be relocated anywhere other than the offices in Muncie, Indiana;

(4) the taking of any action by the Bank and/or Corporation to deprive Executive of any material fringe benefit enjoyed by him at the time of the Change of Control, or the failure by the Bank and/or Corporation to provide him with the number of paid vacation days to which he is entitled on the basis of years of

service with the Bank and/or Corporation and in accordance with the Bank's and/or Corporation's normal vacation policy in effect at the time of Change of Control;

(5) the failure by the Bank or Corporation to continue to provide Executive with benefits substantially similar to those enjoyed by the Executive under any of the Bank or Corporation's life insurance, medical, health and accident, or disability plans in which the Executive was participating at the time of the Change in Control of the Bank or Corporation, or the taking of any action by the Bank or Corporation which would directly or indirectly materially reduce any of such benefits; or

(6) the failure of the Bank or Corporation to continue this Agreement in effect, or to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5 hereof.

4. COMPENSATION UPON TERMINATION.

Following a Change in Control, if the employment by the Bank or Corporation shall be terminated by the Executive on account of Constructive Termination or by the Bank or Corporation other than for Cause, death, Disability, or Retirement (by and at the request of the Executive), then the Executive shall be entitled to the benefits provided below:

(A) No later than the fifth day following the Date of Termination, the Corporation shall pay to the Executive his full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which the Executive is entitled under any incentive, bonus or other compensation plan of the Corporation, at the time such payments are due;

(B) Pay Executive an amount in cash, in a lump sum, which, when added to the present value of all other compensation, benefits and payments required to be included in the calculation under Section 280G of the Internal Revenue Code and regulations thereunder, shall equal 299% of the "base amount" as defined under Section 280G of the Internal Revenue Code, provided such payment shall be reduced to the extent necessary to prevent it from constituting a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended.

(C) For a period beginning with Executive's termination of employment and not to exceed two years, the Bank or Corporation shall arrange to provide Executive with life, disability, accident and health insurance benefits substantially similar to those which Executive was receiving immediately prior to the Notice of Termination.

(D) In lieu of shares of common stock of the Corporation ("Corporation Shares") issuable upon the exercise of outstanding options ("Options"), if any, granted to Executive under any Corporation stock option plan (which Options shall be canceled upon the making of the payment, referred to below), Executive shall receive an amount in cash equal to the product of (A) the excess of, the higher of the closing price of Corporation Shares as reported on the NASDAQ National Market System, the American Stock Exchange or The New York Stock Exchange, wherever listed, on or nearest the Date of Termination or the highest per shares price for Corporation Shares actually paid in connection with any Change in Control of the Corporation, over the per share exercise price of each Option held by Executive (whether or not then fully exercisable), times (B) the number of Corporation Shares covered by each such Option;

(E) The Bank or Corporation shall pay to Executive all reasonable legal fees and expenses incurred by the Executive as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement); unless the decision-maker in any proceeding, contest or dispute arising hereunder makes a formal finding that the Executive did not have a reasonable basis for instituting such proceeding, contest or dispute;

(F) The Bank or Corporation shall provide Executive with individual out placement services in accordance with the general custom and practice generally accorded to an executive of Executive's position.

5. SUCCESSORS; BINDING AGREEMENT.

A. The Bank or Corporation will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Bank or Corporation to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank or Corporation would be required to perform it if no such succession had taken place. Failure of the Bank or Corporation to obtain such assumption and agreement prior to the effectiveness of any such

succession shall be a breach of this Agreement and shall entitle Executive to compensation from the Bank or Corporation in the same amount and on the same terms to which Executive would be entitled hereunder if Executive terminates his employment on account of Constructive Termination following a Change in Control of the Bank or Corporation, except that for the purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Bank or Corporation" shall mean the Bank or Corporation and any successor to their business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

B. This Agreement shall inure to the benefit of and be enforceable by the Executive and his personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable to the Executive hereunder had the Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the devisee, legatee or other designee or, if there is no such designee, to their estate.

6. GUARANTEE BY CORPORATION AND BANK

In consideration of the value of the continued employment of Executive by the Bank or the Corporation, and the benefits derived by the Bank and the Corporation from Executive's employment by the Bank and the Corporation, the Corporation and the Bank hereby unconditionally and fully guarantee and endorse the obligations of the other hereunder, and agree to be fully bound by the terms of this Agreement in the event that the other fails to perform, honor or otherwise complete fully its obligations hereunder.

7. MISCELLANEOUS.

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board. No waiver by either party hereto at the time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Indiana without regard to its conflicts of law principles. All references to section of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the corporation under Section 4 shall survive the expiration of the term of this Agreement.

8. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

9. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

10. ARBITRATION. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators in Muncie, Indiana in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

11. ENTIRE AGREEMENT. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto; and any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and cancelled.

IN WITNESS WHEREOF, the Bank and the Corporation have caused this Agreement to be executed by duly authorized officers of the respective entities and the seals of the Bank and the Corporation to be affixed hereto, and the Executive has hereunder subscribed his name, this _____ day of _____, 1996.

"CORPORATION"

FIRST MERCHANTS CORPORATION
NATIONAL

By: _____
Printed: Stefan S. Anderson
Its: Chairman of the Board

"BANK"

FIRST MERCHANTS BANK,
ASSOCIATION

By: _____
Printed: Stefan S. Anderson
Its: Chairman of the Board

"EXECUTIVE"

By: _____
Printed: _____

SCHEDULE A TO FIRST MERCHANTS CORPORATION
CHANGE OF CONTROL AGREEMENT

The Corporation's Change of Control Agreement covering Stefan S. Anderson and Michael L. Cox are all in the form of Exhibit 10.5 and are substantially identical.

FIRST MERCHANTS CORPORATION
UNFUNDED DEFERRED COMPENSATION PLAN

The Corporation hereby adopts and establishes an Unfunded Deferred Compensation Plan ("PLAN") for its non-employee directors, effective as of January 1, 1997, as follows:

1. Any duly elected non-employee director of the Corporation may, by written election duly filed with the Corporation on or before December 31 of any year, elect to participate in the Plan by deferring the receipt of all or any specified part of the director's fees to which the director would otherwise be entitled, for one or more succeeding calendar years.
2. Any non-employee director of the Corporation elected to fill a vacancy on the Corporation's Board who was not a director on the preceding December 31 may, by written election filed with the Corporation before taking office, elect to defer all or a specified part of the fees accruing to the director for the balance of the calendar year following such election and for succeeding calendar years.
3. An election to defer such director's fees continues from year to year unless and until the director terminates such election by written request; provided, however, in the event of a termination the sums previously deferred at the request of the participating director cannot be distributed until the director is no longer a director of either the Corporation or any of its affiliate banks or corporations.
4. The Corporation will maintain on its books of account a complete separate listing by memorandum of all fees deferred by each participating director and will credit such deferred compensation account not less often than quarterly with that rate of interest then being paid by First Merchants Bank, N.A. on its 18-month variable rate individual retirement accounts. The rate of interest to be credited on directors' deferred compensation accounts, or the method of calculating such rate, may be prospectively changed from time to time by a majority vote of the directors who are not participating and do not have an account balance under the Plan at the time such action is taken.

5. Except as above provided, by the acceptance of each such deferred compensation account the Corporation shall become contractually obligated to pay all such sums (principal and interest) held in a deferred compensation account when and as requested in writing by the participating director. Such contractual obligation shall be unsecured and shall not be evidenced by any other written instrument or instruments. By the adoption of this Plan by the Corporation it is intended that all such funds so accrued and the interest earned thereon shall not be regarded as the receipt of income to the participating director for federal income tax purposes until the taxable year or years wherein such funds are actually paid out by the Corporation to the participating director.

6. All amounts deferred under this Plan, together with accumulated interest earned thereon shall be distributed by the Corporation over the period chosen by the director upon first electing to participate in the Plan. Such distribution shall commence as of the first day of the calendar year immediately following the year in which the director is no longer a director of either the Corporation or any of its affiliate banks or corporations. Notwithstanding the foregoing, a director or former director may request a lump sum distribution of all or part of the director's previously deferred amounts in the event of an unanticipated emergency which was not reasonably foreseeable by the director and which has caused the director severe immediate financial hardship. The decision whether to approve or deny such request shall be based on all relevant facts and circumstances reasonably available to the Board, and shall be made by a majority vote of the directors who are not participating and do not have an account balance under the Plan at the time the request is made.

7. Upon the death of a participating director or former participating director prior to the expiration of the period during which the deferred amounts are payable, all remaining deferred fees and interest earned thereon shall be paid over the remaining portion of the period so elected to the director's designated beneficiary or beneficiaries until all account sums and interest earned thereon have been fully paid out.

8. In the event the director is no longer a director of either the Corporation or any of its affiliate banks or

corporations, and becomes a proprietor, officer, partner, employee, or otherwise becomes affiliated with any business in competition with the Corporation or any of the Corporation's affiliates, then and in that event, the entire balance of the director's deferred fees, including interest, may at the discretion of the continuing directors of the Corporation be paid immediately to the director in a lump sum.

9. It is intended that the Plan established by this Resolution shall comply with the requirements of Revenue Ruling 71-419; and the Corporation, the Board, and the Plan's participating directors, in the implementation of the Plan, intend to be governed by the procedures and requirements therein outlined.

[GRAPHIC: MAP; FIRST MERCHANTS CORPORATION MARKET AREA]

First
Merchants
Corporation
Market Area

STOCKHOLDER INFORMATION

Corporate Office
200 East Jackson Street
Muncie, IN 47305
765-747-1500
<http://firstmerchants.com>

First Merchants Corporation currently provides services through 25 offices located in Delaware, Madison, Henry, Fayette, Wayne, Union and Randolph counties in Indiana.

First Merchants Corporation of Muncie, Indiana, was organized in September, 1982, as the bank holding company for The Merchants National Bank of Muncie, now First Merchants Bank, N.A., an institution which has served Muncie and the surrounding communities since 1893.

In November, 1988, First Merchants acquired Pendleton Banking Company of Pendleton, Indiana, a commercial bank which was organized in 1872.

In July, 1991, the Corporation acquired First United Bank of Middletown, Indiana, which was established in 1882.

In August, 1996, First Merchants Corporation acquired The Union County National Bank of Liberty, Indiana, established in 1872.

In October, 1996, the Corporation acquired The Randolph County Bank of Winchester, Indiana, which was founded in 1865.

Subsidiaries of First Merchants Corporation conduct a full range of banking operations, including commercial, industrial, consumer and real estate lending, deposit and investment services, and other banking services. First Merchants Bank, with more than one billion dollars in fiduciary assets at market value, operates one of the ten largest trust departments in Indiana.

First Merchants Corporation is committed to the sound management of its subsidiaries and to leading its east central Indiana marketplace in meeting customer banking needs and expectations.

STOCKHOLDER INFORMATION
STOCK PRICE AND DIVIDEND INFORMATION

ANNUAL MEETING

The Annual Meeting of Stockholders of First Merchants Corporation will be held: Tuesday, April 8, 1997, 3:30 p.m. at the Horizon Convention Center, 401 South High Street, Muncie, Indiana.

QUARTER	PRICE PER SHARE					
	HIGH		LOW		DIVIDENDS DECLARED	
	1996	1995	1996	1995	1996	1995
First Quarter	\$ 27.50	\$ 22.17	\$ 25.00	\$ 20.83	\$.20	\$.1867
Second Quarter	27.50	23.50	24.50	21.33	.20	.1867
Third Quarter	26.00	26.50	23.25	22.67	.24	.20
Fourth Quarter	26.75	26.75	24.06	25.75	.24	.20

The table above lists per share prices and dividend payments during 1996 and 1995, as adjusted for the 3-for-2 stock split of October, 1995.

Prices are as reported by the National Association of Securities Dealers Automated Quotation - National Market System.

Numbers rounded to nearest cent when applicable.

STOCK INFORMATION

COMMON STOCK LISTING

First Merchants Corporation common stock is traded over-the-counter on the NASDAQ National Market System. Quotations are carried in many daily papers. The NASDAQ symbol is FRME (Cusip #320817-10-9). At the close of business on December 31, 1996, the number of shares outstanding was 6,603,319. There were 1,424 stockholders of record on that date.

STOCK TRANSFER AGENT AND REGISTRAR

First Merchants Bank, N.A.
Corporate Trust Department
P.O. Box 792
Muncie, Indiana 47308-0792

GENERAL STOCKHOLDER INQUIRIES

Stockholders and interested investors may obtain information about the Corporation upon written request or by calling:

Mr. Douglas B. Harris
Assistant Vice President & Bank Investments
Investor Services
First Merchants Corporation
P.O. Box 792
Muncie, Indiana 47308-0792
765-741-7278
1-800-262-4261, Ext. 278

MARKET MAKERS

The following firms make a market in First Merchants Corporation stock:

City Securities Corporation
Herzog, Heine, Geduld, Inc.
Howe, Barnes & Johnson, Inc.
McDonald and Company
NatCity Investments, Inc.
David A. Noyes and Company

FORM 10-K AND FINANCIAL INFORMATION

First Merchants Corporation, upon request and without charge, will furnish stockholders, security analysts, and investors a copy of Form 10-K filed with the Securities and Exchange Commission. Please contact:

Mr. James Thrash
Senior Vice President
and Chief Financial Officer
First Merchants Corporation
P.O. Box 792
Muncie, Indiana 47308-0792
765-747-1390
1-800-262-4261, Ext. 390

ANNUAL REPORT 1996

Financial Review

Relationship Banking . . .
When It's Meant to Last

First Merchants Corporation

(COVER)

TABLE OF CONTENTS

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA.	1
MANAGEMENT'S DISCUSSION & ANALYSIS.	2
CONSOLIDATED FINANCIAL STATEMENTS	8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	12

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors
First Merchants Corporation
Muncie, Indiana

We have audited the consolidated balance sheet of First Merchants Corporation and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996 (pages 8-26). These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements described above present fairly, in all material respects, the consolidated financial position of First Merchants Corporation and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in the notes to the Consolidated Financial Statements, the Corporation changed its method of accounting for investments in securities in 1994.

/S/ GEO. S. OLIVE & CO. LLC

Geo. S. Olive & Co. LLC

Indianapolis, Indiana
January 24, 1997

(INSIDE COVER)

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(Dollars in Thousands, Except Per Share Amounts)

	1996	1995	1994	1993	1992
OPERATIONS					
Net Interest Income					
Fully Taxable Equivalent Basis	\$ 39,258	\$ 37,049	\$ 35,909	\$ 34,536	\$ 33,457
Less Tax Equivalent Adjustment	2,112	1,952	1,971	2,011	1,454
Net Interest Income.	37,146	35,097	33,938	32,525	32,003
Provision for Loan Losses.	1,253	1,388	1,202	1,654	2,101
Net Interest Income					
After Provision for Loan Losses	35,893	33,709	32,736	30,871	29,902
Total Other Income	8,342	7,593	6,919	7,350	6,117
Total Other Expenses	24,135	22,994	22,632	22,108	21,603
Income Before Income Tax Expense	20,100	18,308	17,023	16,113	14,416
Income Tax Expense	6,958	6,260	5,660	5,250	4,415
Income Before Change in Accounting Method	13,142	12,048	11,363	10,863	10,001
Change in Accounting Method for Income Taxes				260	
Net Income	\$ 13,142	\$ 12,048	\$ 11,363	\$ 11,123	\$ 10,001
PER SHARE DATA (1)					
Income Before Change in Accounting Method.	\$ 2.00	\$ 1.84	\$ 1.73	\$ 1.64	\$ 1.52
Net Income	2.00	1.84	1.73	1.68	1.52
Cash Dividends Paid (2). . . . .	.88	.77	.71	.63	.57
December 31 Book Value	17.07	15.99	14.08	13.46	12.49
December 31 Market Value (Bid Price)	25.25	25.75	20.83	19.33	19.00
AVERAGE BALANCES					
Total Assets	\$932,144	\$890,995	\$853,257	\$832,756	\$794,564
Total Loans.	585,905	544,457	513,784	469,782	429,421
Total Deposits	753,661	728,826	698,644	694,453	667,173
Total Federal Home Loan Bank Advances.	9,192	9,000	7,692	5,833	3,583
Total Stockholders' Equity	108,094	99,033	91,466	86,311	78,637
YEAR-END BALANCES					
Total Assets	\$967,993	\$942,156	\$868,153	\$842,681	\$818,243
Total Loans.	631,700	553,074	528,641	495,703	455,905
Total Deposits	794,451	783,936	720,009	688,644	685,112
Total Federal Home Loan Bank Advances.	9,150	9,000	8,000	6,000	4,000
Total Stockholders' Equity	112,687	104,967	92,754	89,257	82,233
FINANCIAL RATIOS					
Return on Average Assets	1.41%	1.35%	1.33%	1.34%	1.26%
Return on Average Stockholders' Equity	12.16	12.17	12.42	12.89	12.72
Average Earning Assets to Total Assets	94.48	94.86	94.46	94.27	94.38
Allowance for Loan Losses as % of Total Loans.	1.05	1.21	1.25	1.30	1.08
Dividend Payout Ratio	40.85	39.49	39.44	37.06	37.25
Average Stockholders' Equity to Average Assets	11.60	11.11	10.72	10.36	9.90
Tax Equivalent Yield on Earning Assets (3)	8.13	8.09	7.41	7.46	8.37
Cost of Supporting Liabilities	3.67	3.71	2.95	3.06	3.91
Net Interest Margin on Earning Assets.	4.46	4.38	4.46	4.40	4.46

(1) Restated for 3-for-2 stock split distributed January, 1993, and October, 1995.

(2) Dividends per share is for First Merchants Corporation only, not restated for pooling transactions.

(3) 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.

MANAGEMENT'S DISCUSSION & ANALYSIS

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

[Graphic; Bar Chart; Return on Average Assets]

[Graphic; Bar Chart; Return on Average Equity]

RESULTS OF OPERATIONS

Net income amounted to \$13,142,000 or \$2.00 per share, an increase of 8.7 per cent over 1995 at \$1.84 per share.

Return on assets increased 1.41 per cent, up from 1.35 per cent in 1995, and 1.33 per cent in 1994.

Return on equity was 12.16 per cent in 1996, 12.17 per cent in 1995, and 12.42 per cent in 1994.

In 1996, First Merchants Corporation ("Corporation") recorded the twenty-first consecutive year of improvement in net income on both an aggregate and per share basis.

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 11.6 per cent at year-end 1996 and 11.1 per cent at December 31, 1995. At December 31, 1996, the Corporation had a Tier I risk-based capital ratio of 17.0 per cent, total risk-based capital ratio of 18.0 per cent, and a leverage ratio of 11.6 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 these plans is described in Note 15 to the Consolidated Financial Statements. The transactions under these plans have not had a material effect on the Corporation's capital position.

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 (table dollar amounts in thousands).

(continued)

ASSET QUALITY/PROVISION FOR LOAN LOSSES (continued)

The increase in non-performing loans from December 31, 1995, to December 31, 1996, is primarily attributable to one loan placed in non-accrual status during 1996. This loan is included in impaired loans at December 31, 1996, for which an allowance was recorded. Management is in the process of resolving this loan situation and anticipates that no additional provision for loan losses will be required.

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 included in the table above, totaled \$3,992,000 at December 31, 1996. An allowance for losses at December 31, 1996, was not deemed necessary for impaired loans totaling \$868,000, but an allowance of \$1,092,000 was recorded for the remaining balance of impaired loans of \$3,124,000. The average balance of impaired loans for 1996 was \$5,213,000.

At December 31, 1996, the allowance for loan losses was \$6,622,000, down slightly from year end 1995. As a per cent of loans, the allowance was 1.05 per cent, down from 1.21 per cent at year end 1995.

The provision for loan losses in 1996 was \$1,253,000 compared to \$1,388,000 in 1995.

(Dollars in Thousands)

	December 31, 1996	December 31, 1995
Non-accrual loans	\$ 2,777	\$ 576
Loans contractually past due 90 days or more other than nonaccruing	1,699	1,119
Restructured loans	1,540	1,075
Total	\$ 6,016	\$ 2,770

[Graphic; Bar Chart; Net Loan Losses]

The table below presents loan loss experience for the years indicated and compares the Corporation's loss experience to that of its peer group.

	1996	1995	1994
(Dollars in Thousands)			
Allowance for loan losses:			
Balance at January 1	\$ 6,696	\$ 6,603	\$ 6,467
Chargeoffs	1,636	1,554	1,488
Recoveries	309	259	422
Net chargeoffs	1,327	1,295	1,066
Provision for loan losses	1,253	1,388	1,202
Balance at December 31	\$ 6,622	\$ 6,696	\$ 6,603
Ratio of net chargeoffs during the period to average loans outstanding during the period . . . . .	.23%	.24%	.21%
Peer Group	N/A	.26%	.25%

MANAGEMENT'S DISCUSSION & ANALYSIS

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.

The Corporation's liquidity and interest sensitivity position at December 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 presents the Corporation's interest rate sensitivity analysis as of December 31, 1996.

INTEREST-RATE SENSITIVITY ANALYSIS

(Dollars in Thousands)

	AT DECEMBER 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	1,440				\$ 1,440
Investment securities	54,565	\$ 29,873	\$ 161,071	\$ 30,097	275,606
Loans	302,827	77,364	205,688	45,821	631,700
Federal Reserve and Federal Home Loan Bank stock	2,783			307	3,090
Total rate-sensitive assets	361,615	107,237	366,759	76,225	911,836
Rate Sensitive Liabilities:					
Interest-bearing deposits	302,263	85,307	294,428	2,278	684,276
Borrowed funds	45,037				45,037
Federal Home Loan Bank advances			9,150		9,150
Total rate-sensitive liabilities	347,300	85,307	303,578	2,278	738,463
Interest rate sensitivity gap by period	\$ 14,315	\$ 21,930	\$ 63,181	\$ 73,947	
Cumulative rate sensitivity gap	14,315	36,245	99,426	173,373	
Cumulative rate sensitivity gap ratio at December 31, 1996	104.1%	108.4%	113.5%	123.5%	

The Corporation had a cumulative positive gap of \$36,245,000 in the one year horizon at December 31, 1996, or just over 4 per cent of total assets. Net interest income at financial institutions with positive gaps tends to increase when rates increase and generally decrease as interest rates decline.

EARNING ASSETS

Earning assets increased \$30.3 million during 1996.

The following table presents the earning asset mix for the years 1996 and 1995 (at December 31).

Loans grew by more than \$79 million while short-term investments and securities declined, reflecting the Corporation's intent to change the balance sheet mix to emphasize loans which generally carry higher yields than federal funds sold, interest-bearing deposits and investment securities and often provide collateral business.

EARNING ASSETS

(Dollars in Millions)

	DECEMBER 31	
	1996	1995
Federal funds sold and interest-bearing time deposits	\$ 1.4	\$ 39.2
Securities available for sale	228.4	225.9
Securities held to maturity	47.2	60.7
Mortgage loans held for sale	0.3	0.7
Loans	631.4	552.3

Federal Reserve and Federal Home Loan Bank stock	3.1	2.7
	-----	-----
Total.	\$ 911.8	\$ 881.5
	-----	-----
	-----	-----

MANAGEMENT'S DISCUSSION & ANALYSIS

DEPOSITS, SHORT-TERM BORROWINGS AND FEDERAL HOME LOAN BANK ADVANCES

The following table presents the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements with customers, U.S. Treasury demand notes and Federal Home Loan Bank advances) based on year-end levels at December 31, 1996 and 1995.

AS OF DECEMBER 31

(Dollars in Millions)

	DEPOSITS	SHORT-TERM BORROWINGS	FEDERAL HOME LOAN BANK ADVANCES
1996	\$ 794.5	\$ 45.0	\$ 9.2
1995	783.9	37.4	9.0

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 at right presents the Corporation's asset yields, interest expense, and net interest income as a per cent of average earning assets for the three-year period ending in 1996.

Asset yields improved slightly in 1996 (.04 per cent FTE) due to strong loan growth. Interest costs declined by a like amount, primarily due to rate reductions to three interest-bearing deposit products: interest checking, Money Market investment account and regular savings.

The resulting "spread" increase of .08 per cent combined with earning asset growth of \$35.5 million accounted for the growth in net interest income (FTE) of \$2.2 million.

Asset yields in 1995 were .67 per cent higher than in 1994 as loan rates improved. Interest costs increased .75 per cent due to growth in higher costing deposit products, namely certificates of deposit. This .08 per cent decline in net interest margin (FTE) was offset by growth in earning assets of \$39.2 million, enabling net interest income to grow by \$1.1 million.

(Dollars in Thousands)

	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 Average Earning Assets	AVERAGE EARNING ASSETS	NET INTEREST INCOME on a Fully Taxable Equivalent Basis
1996	8.13%	3.67%	4.46%	\$ 880,729	\$ 39,258
1995	8.09	3.71	4.38	845,198	37,049
1994	7.42	2.96	4.46	805,987	35,909

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 1996 amounted to \$8,342,000 or 9.9 per cent higher than in 1995. The increase of \$750,000 is primarily attributable to the following five factors:

1. Trust revenues increased \$166,000 (5.9 per cent) due to stronger business activity and markets.
2. Deposit service charges increased \$195,000 (6.9 per cent) primarily due to changes in pricing.
3. Interchange fees for the Corporation's credit and debit card programs grew by \$169,000 (142 per cent) due to increased product offerings.
4. The Corporation recorded securities gains of \$148,000 compared to losses of \$30,000 last year, an increase of \$178,000 as shorter maturity, available for sale securities were sold at gains and longer maturity, higher yielding investments were purchased.

5. Postal money order agent fees increased \$79,000 (19.4 per cent) due to an increased client base.

Other income reached \$7,592,000 in 1995, exceeding the prior year by \$674,000 or 9.7 per cent. Major factors included:

1. A \$185,000 (7.1 per cent) increase in trust revenues, which was principally due to the increasing stock and bond markets.
2. A gain of \$205,000, included in other income, on the sale of approximately \$8,000,000 of the Corporation's student loans.

OTHER EXPENSE

Total "other expenses" represent non-interest operating expenses of the Corporation. Those expenses amounted to \$24,135,000 in 1996, an increase of 5.0 per cent from the prior year, or \$1,142,000.

Including an \$813,000 reduction in deposit insurance premiums, remaining operating expenses grew by \$1,955,000. Four major areas account for most of this increase:

1. Salary and benefit expenses, which account for over one-half of the Corporation's non-interest operating expenses, increased by \$640,000 (5.0 per cent) due to normal salary increases.
2. Equipment expense rose \$223,000, reflecting the Corporation's investment in technology to increase productivity.
3. Expenses related to mergers with Union National Bancorp and Randolph County Bancorp amounted to \$258,000.
4. The previous year included a \$238,000 refund from the State of Indiana for intangibles taxes paid in 1988 and 1989.

1995 expenses at \$22,993,000 exceeded the prior year by \$361,000 (1.6 per cent). Salary and benefit expenses increased by \$605,000 (5.0 per cent). Net occupancy expense increased \$124,000 (8.7 per cent) and equipment expense grew by \$131,000 (7.3 per cent) primarily due to technology upgrading. These increases were offset by a \$723,000 (46.7 per cent) decrease in deposit insurance premiums due to a rate reduction implemented by the Federal Deposit Insurance Corporation during 1995, and by a refund of \$238,000 from the State of Indiana for intangibles taxes paid in 1988 and 1989.

INCOME TAXES

The increase in 1996 tax expense of \$698,000 is attributable primarily to a \$1,792,000 increase in net pre-tax income. Likewise, the \$601,000 increase in 1995 resulted primarily from a \$1,286,000 increase in pre-tax net income.

ACCOUNTING MATTERS

Accounting for Mortgage Servicing Rights

During 1995, the FASB issued SFAS No. 122 ("SFAS 122") ACCOUNTING FOR MORTGAGE SERVICING RIGHTS. SFAS 122 pertains to mortgage banking enterprises and financial institutions that conduct operations that are substantially similar to the primary operations of a mortgage banking enterprise. SFAS 122 eliminates the accounting distinction between mortgage servicing rights that are acquired through loan origination activities and those acquired through purchase transactions. Under SFAS 122, if a mortgage banking enterprise sells or securitizes loans and retains the mortgage servicing rights, the enterprise must allocate the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the rights) based on their relative fair values if it is practicable to estimate those fair values. If it is not practicable, the entire cost should be allocated to the mortgage loans and no cost should be allocated to the mortgage servicing rights. An entity would measure impairment of mortgage service rights and loans based on the excess of the carrying amount of the mortgage servicing rights portfolio over the fair value of that portfolio.

In 1996, the Corporation adopted SFAS No. 122. The adoption of this statement had no material impact on the Corporation's financial condition and result of operations.

Accounting for Stock-Based Compensation

The FASB issued SFAS 123, STOCK-BASED COMPENSATION. In December, 1994, the FASB decided to require expanded disclosures rather than recognition of compensation cost for fixed, at the money, options rather than recognition of compensation expense as was originally proposed in the exposure draft.

This statement establishes a fair value based method of accounting for stock-based compensation plans. The FASB encourages employers to recognize the related compensation expense; however, employers are permitted to continue to apply the provisions of APB Opinion No. 25. The Corporation has chosen to follow APB No. 25 and the pro forma effects on net income and earnings per share of the new accounting method are disclosed in footnote 15.

Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

SFAS No. 125 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are considered secured borrowings.

(continued)

ACCOUNTING MATTERS (continued)

A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets only if all of the following conditions are met:

1. The transferred assets have been isolated from the transferor-put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
2. Each transferee obtains the right-free of conditions that constrain it from taking advantage of that right-to pledge or exchange the transferred assets, or the transferee is a qualifying special-purpose entity and the holders of beneficial interests in that entity have the right-free of conditions that constrain them from taking advantage of that right-to pledge or exchange those interests.
3. The transferor does not maintain effective control over the transferred assets through an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or an agreement that entitles the transferor to repurchase or redeem transferred assets that are not readily obtainable.

This Statement provides detailed measurement standards for assets and liabilities included in these transactions. It also includes implementation guidance for assessing isolation of transferred assets and for accounting for transfers of partial interests, servicing of financial assets, securitizations, transfers of sales-type and direct financing lease receivables, securities lending transactions, repurchase agreements, "wash sales," loan syndications and participations, risk participations in banker's acceptances, factoring arrangements, transfers of receivables with recourse, and extinguishments of liabilities.

The Statement supersedes FASB Statements No. 76, EXTINGUISHMENT OF DEBT, and No. 77, REPORTING BY TRANSFERORS FOR TRANSFERS OF RECEIVABLES WITH RECOURSE, and No. 122, ACCOUNTING FOR MORTGAGE SERVICING RIGHTS and amends FASB Statement No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES, in addition to clarifying or amending a number of other statements and technical bulletins.

Except as amended by Statement No. 127, this Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is to be applied prospectively. Earlier or retroactive application is not permitted. Statement No. 127 defers for one year the effective date (a) of paragraph 15 of Statement No. 125 and (b) for repurchase agreement, dollar-roll, securities lending, and similar transactions, or paragraphs 9-12 and 237(b) of Statement No. 125.

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 the Corporation's 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 in the rate of inflation and benefit from a decrease.

CONSOLIDATED BALANCE SHEET

	December 31	
	1996	1995
ASSETS		
Cash and due from banks	\$ 33,881,943	\$ 38,973,542
Federal funds sold	1,150,000	38,900,000
	-----	-----
Cash and cash equivalents	35,031,943	77,873,542
Interest-bearing deposits	289,886	259,036
Investment securities		
Available for sale	228,378,738	225,938,429
Held to maturity	47,227,212	60,678,153
	-----	-----
Total investment securities	275,605,950	286,616,582
Mortgage loans held for sale	284,020	735,522
Loans	631,415,970	552,338,402
Less: Allowance for loan losses	(6,621,716)	(6,695,593)
	-----	-----
Net Loans	624,794,254	545,642,809
Premises and equipment	15,303,300	14,834,011
Federal Reserve and Federal Home Loan Bank stock	3,090,300	2,701,800
Interest receivable	8,642,816	8,999,471
Core deposit intangibles and goodwill	1,714,239	1,845,417
Other assets	3,236,126	2,647,561
	-----	-----
Total assets	\$967,992,834	\$942,155,751
	-----	-----
LIABILITIES		
Deposits		
Noninterest-bearing	\$110,175,273	\$114,571,855
Interest-bearing	684,276,081	669,364,509
	-----	-----
Total deposits	794,451,354	783,936,364
Short-term borrowings	45,036,752	37,377,266
Federal Home Loan Bank advances	9,150,000	9,000,000
Interest payable	3,375,697	3,415,316
Other liabilities	3,291,674	3,459,772
	-----	-----
Total liabilities	855,305,477	837,188,718
	-----	-----
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--6,603,319 and 6,562,290 shares	825,415	820,286
Additional paid-in capital	22,967,729	22,055,101
Retained earnings	87,978,127	80,205,350
Net unrealized gain on securities available for sale	916,086	1,886,296
	-----	-----
Total stockholders' equity	112,687,357	104,967,033
	-----	-----
Total liabilities and stockholders' equity	\$967,992,834	\$942,155,751
	-----	-----

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31		
	1996	1995	1994
INTEREST INCOME			
Loans receivable			
Taxable	\$ 52,095,502	\$ 49,060,029	\$ 41,677,535
Tax exempt	89,806	81,407	117,752
Investment securities			
Taxable	12,832,350	12,478,700	11,831,060
Tax exempt	3,832,051	3,642,321	3,765,015
Federal funds sold	498,131	1,027,984	271,020
Deposits with financial institutions	15,599	9,025	1,743
Federal Reserve and Federal Home Loan Bank stock	131,879	149,110	102,785
Total interest income	69,495,318	66,448,576	57,766,910
INTEREST EXPENSE			
Deposits	29,139,357	28,227,765	21,403,065
Short-term borrowings	2,686,548	2,627,511	1,963,569
Federal Home Loan Bank advances	522,975	496,086	462,184
Total interest expense	32,348,880	31,351,362	23,828,818
NET INTEREST INCOME	37,146,438	35,097,214	33,938,092
Provision for loan losses	1,253,000	1,388,000	1,202,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	35,893,438	33,709,214	32,736,092
OTHER INCOME			
Fiduciary activities	2,966,731	2,801,174	2,616,156
Service charges on deposit accounts	3,023,933	2,829,158	2,763,031
Other customer fees	1,659,085	1,270,075	1,163,449
Net realized gains (losses) on sales of available-for-sale securities	148,088	(29,721)	(18,386)
Other income	544,316	721,713	394,421
Total other income	8,342,153	7,592,399	6,918,671
OTHER EXPENSES			
Salaries and employee benefits	13,432,849	12,792,364	12,187,511
Net occupancy expenses	1,537,055	1,555,094	1,431,023
Equipment expenses	2,151,846	1,928,516	1,797,357
Deposit insurance expense	12,418	825,185	1,548,225
Printing and office supplies	922,842	1,094,404	952,125
Other expenses	6,078,457	4,797,592	4,716,068
Total other expenses	24,135,467	22,993,155	22,632,309
INCOME BEFORE INCOME TAX	20,100,124	18,308,458	17,022,454
Income tax expense	6,958,549	6,260,615	5,659,815
NET INCOME	\$ 13,141,575	\$ 12,047,843	\$ 11,362,639
NET INCOME PER SHARE	\$ 2.00	\$ 1.84	\$ 1.73
WEIGHTED AVERAGE SHARES OUTSTANDING	6,581,167	6,563,559	6,585,697

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital
	Shares	Amount	
BALANCES, JANUARY 1, 1994.	4,899,899	\$ 612,488	\$23,299,610
Net income for 1994.			
Cash dividends			
Cumulative effect of change in method of accounting for securities.			
Net change in unrealized gain (loss) on securities available for sale.			
Stock issued under employee benefit plans.	10,543	1,318	248,485
Stock issued under dividend reinvestment and stock purchase plan.	11,670	1,459	355,745
Stock options exercised.	4,875	609	107,275
Stock redeemed	(50,333)	(6,292)	(1,549,343)
BALANCES, DECEMBER 31, 1994.	4,876,654	609,582	22,461,772
Net income for 1995.			
Cash dividends			
Net change in unrealized gain (loss) on securities available for sale.			
Stock issued under employee benefit plans.	11,175	1,397	275,254
Stock issued under dividend reinvestment and stock purchase plan.	13,928	1,741	454,498
Stock options exercised.	9,267	1,158	191,251
Stock redeemed	(31,918)	(3,990)	(1,113,113)
Three-for-two stock split.	1,683,344	210,418	(210,418)
Cash paid in lieu of issuing fractional shares	(160)	(20)	(4,143)
BALANCES, DECEMBER 31, 1995.	6,562,290	820,286	22,055,101
Net income for 1996.			
Cash dividends			
Net change in unrealized gain (loss) on securities available for sale.			
Stock issued under employee benefit plans.	15,175	1,897	295,849
Stock issued under dividend reinvestment and stock purchase plan.	21,712	2,714	555,387
Stock options exercised.	4,237	530	63,689
Cash paid in lieu of issuing fractional shares	(95)	(12)	(2,297)
BALANCES, DECEMBER 31, 1996.	6,603,319	\$ 825,415	\$22,967,729

	Retained Earnings	Net Unrealized Gain (Loss) On Securities Available for Sale	
		Available for Sale	Total
BALANCES, JANUARY 1, 1994.	\$ 65,248,042		\$ 89,160,140
Net income for 1994.	11,362,639		11,362,639
Cash dividends	(3,995,630)		(3,995,630)
Cumulative effect of change in method of accounting for securities.		\$ 916,464	916,464
Net change in unrealized gain (loss) on securities available for sale.		(3,848,702)	(3,848,702)
Stock issued under employee benefit plans.			249,803
Stock issued under dividend reinvestment and stock purchase plan.			357,204
Stock options exercised.			107,884
Stock redeemed			(1,555,635)
BALANCES, DECEMBER 31, 1994.	72,615,051	(2,932,238)	92,754,167
Net income for 1995.	12,047,843		12,047,843
Cash dividends	(4,455,212)		(4,455,212)
Net change in unrealized gain (loss) on securities available for sale.		4,818,534	4,818,534
Stock issued under employee benefit plans.			276,651
Stock issued under dividend reinvestment and stock purchase plan.			456,239
Stock options exercised.			192,409
Stock redeemed	(2,332)		(1,119,435)
Three-for-two stock split Cash paid in lieu of issuing fractional shares			(4,163)
BALANCES, DECEMBER 31, 1995.	80,205,350	1,886,296	104,967,033
Net income for 1996.	13,141,575		13,141,575
Cash dividends	(5,368,798)		(5,368,798)
Net change in unrealized gain (loss) on securities available for sale.		(970,210)	(970,210)
Stock issued under employee benefit plans.			297,746
Stock issued under dividend reinvestment and stock purchase plan.			558,101
Stock options exercised.			64,219

Cash paid in lieu of issuing fractional shares . . .	-----	-----	(2,309)
BALANCES, DECEMBER 31, 1996.	\$ 87,978,127	\$ 916,086	\$ 112,687,357
	-----	-----	-----

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31		
	1996	1995	1994
OPERATING ACTIVITIES:			
Net income	\$ 13,141,575	\$ 12,047,843	\$ 11,362,639
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan losses	1,253,000	1,388,000	1,202,000
Depreciation and amortization	1,626,294	1,482,506	1,486,796
Amortization of goodwill and intangibles	131,178	131,177	131,177
Deferred income tax	401,403	376,872	(65,314)
Securities amortization, net	188,121	693,006	1,497,651
Securities losses (gains), net	(148,088)	29,721	18,386
Mortgage loans originated for sale	(2,500,838)	(4,491,484)	
Proceeds from sales of mortgage loans	2,952,340	3,785,283	
Net change in			
Interest receivable	356,655	(705,889)	(70,479)
Interest payable	(39,619)	979,376	338,736
Other adjustments	(594,237)	66,911	(65,498)
Net cash provided by operating activities	16,767,784	15,783,322	15,836,094
INVESTING ACTIVITIES:			
Net change in interest-bearing deposits	(30,850)	(235,919)	230,737
Purchases of			
Securities available for sale	(113,473,186)	(91,178,441)	(34,370,276)
Securities held to maturity	(22,449,898)	(41,575,202)	(43,701,349)
Proceeds from maturities of			
Securities available for sale	96,441,179	35,715,846	14,109,090
Securities held to maturity	35,715,345	62,053,098	71,998,501
Proceeds from sales of			
securities available for sale	13,120,159	14,165,258	16,152,838
Net change in loans	(80,404,445)	(25,628,670)	(34,838,202)
Purchase of Federal Home Loan Bank stock	(388,500)		
Purchases of premises and equipment	(2,083,063)	(2,187,086)	(3,017,115)
Other investing activities	70,441	365,990	1,454,774
Net cash used by investing activities	(73,482,818)	(48,505,126)	(11,981,002)
FINANCING ACTIVITIES:			
Net change in			
Demand and savings deposits	(19,167,911)	2,604,084	16,887,893
Certificates of deposit and other time deposits	29,682,901	61,322,576	14,477,751
Short-term borrowings	7,659,486	(3,253,901)	(12,090,302)
Federal Home Loan Bank advances	5,150,000	1,000,000	2,000,000
Repayment of Federal Home Loan Bank advances	(5,000,000)		
Cash dividends	(5,368,798)	(4,455,212)	(3,995,630)
Stock issued under employee benefit plans	297,746	276,651	249,803
Stock issued under dividend reinvestment and stock purchase plan	558,101	456,239	357,204
Stock options exercised	64,219	192,409	107,884
Stock redeemed		(1,119,435)	(1,555,635)
Cash paid in lieu of issuing fractional shares	(2,309)	(4,163)	
Net cash provided by financing activities	13,873,435	57,019,248	16,438,968
NET CHANGE IN CASH AND CASH EQUIVALENTS	(42,841,599)	24,297,444	20,294,060
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	77,873,542	53,576,098	33,282,038
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 35,031,943	\$ 77,873,542	\$ 53,576,098
ADDITIONAL CASH FLOWS INFORMATION:			
Interest paid	\$ 32,388,499	\$ 30,371,976	\$ 23,597,053
Income tax paid	6,202,895	5,641,046	5,860,952

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 1
NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of First Merchants Corporation ("Corporation"), and its wholly owned subsidiaries, First Merchants Bank, N.A. ("First Merchants"), Pendleton Banking Company ("Pendleton"), First United Bank ("First United"), The Randolph County Bank ("Randolph County"), and Union County National Bank ("Union National"), (collectively "the Banks"), conform to generally accepted accounting principles and reporting practices followed by the banking industry. The more significant of the policies are described below.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Corporation is a bank holding company whose principal activity is the ownership and management of the Banks. First Merchants and Union National operate under national bank charters and provide full banking services, including trust services. As national banks, First Merchants and Union National are subject to the regulation of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation ("FDIC"). Pendleton, First United and Randolph County operate under state bank charters and provide full banking services, including trust services. As state banks, Pendleton, First United and Randolph County are subject to the regulation of the Department of Financial Institutions, State of Indiana, and the FDIC.

The Banks generate commercial, mortgage, and consumer loans and receive deposits from customers located primarily in central and east central Indiana and Butler County, Ohio. The Banks' loans are generally secured by specific items of collateral, including real property, consumer assets, and business assets. Although the Banks have a diversified loan portfolio, a substantial portion of their debtors' ability to honor their contracts is dependent upon economic conditions in the automotive and agricultural industries.

CONSOLIDATION - The consolidated financial statements include the accounts of the Corporation and the Banks, after elimination of all material intercompany transactions and accounts. Certain prior year amounts have been reclassified to conform with current classifications.

INVESTMENT SECURITIES - The Corporation adopted Statement of Financial Accounting Standards ("SFAS") No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES, on January 1, 1994.

Debt securities are classified as held to maturity when the Corporation has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost.

Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported separately through stockholders' equity, net of tax.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

At January 1, 1994, investment and trading account securities, with an approximate carrying value of \$123,634,000, were reclassified as available for sale. This reclassification resulted in an increase in total stockholders' equity, net of taxes, of \$916,000.

MORTGAGE SERVICING RIGHTS on originated loans are capitalized by allocating the total cost of the mortgage loans between the mortgage servicing rights and the loans based on their relative fair values. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues.

MORTGAGE LOANS HELD FOR SALE are carried at the lower of aggregate cost or market. Net unrealized losses are recognized through a valuation allowance by charges to income.

LOANS are carried at the principal amount outstanding. A loan is impaired when, based on current information or events, it is probable that the Banks will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Payments with insignificant delays not exceeding 60 days outstanding are not considered impaired. Certain nonaccrual and substantially delinquent loans may be considered to be impaired. In applying the provisions of SFAS No. 114, the Corporation considers its investment in one-to-four family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. Interest income is accrued on the principal balances of loans, except for installment loans with add-on interest, for which a method that approximates the level yield method is used. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed when considered uncollectible. Interest income is subsequently recognized only to the extent cash payments are received. Certain loan fees and direct costs are being

deferred and amortized as an adjustment of yield on the loans.

ALLOWANCE FOR LOAN LOSSES is maintained to absorb potential loan losses based on management's continuing review and evaluation of the loan portfolio and its judgment as to the impact of economic conditions on the portfolio. The evaluation by management includes consideration of past loan loss experience, changes in the composition of the loan portfolio, the current condition and amount of loans outstanding, and the probability

(continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 1
 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (continued)

of collecting all amounts due. Impaired loans are measured by the present value of expected future cash flows, or the fair value of the collateral of the loans, if collateral dependent.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. Management believes that, as of December 31, 1996, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the area within which the Corporation operates would increase the likelihood of additional losses due to credit and market risks and could create the need for additional loss reserves.

PREMISES AND EQUIPMENT are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line and declining methods based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred, while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

FEDERAL RESERVE AND FEDERAL HOME LOAN BANK STOCK are required investments for institutions that are members of the Federal Reserve Bank ("FRB") and Federal Home Loan Bank ("FHLB") systems. The required investment in the common stock is based on a predetermined formula.

INTANGIBLE ASSETS are being amortized on the straight-line basis over periods ranging from 10 to 25 years. Such assets are periodically evaluated as to the recoverability of their carrying value.

INCOME TAX in the consolidated statement of income includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. The Corporation files consolidated income tax returns with its subsidiaries.

EARNINGS PER SHARE have been computed based upon the weighted average common shares outstanding during each year and have been restated to give effect to a three-for-two stock split distributed to stockholders on October 27, 1995. Common stock equivalents, consisting of shares issuable under employee benefit plans, were not included since their effect on dilution was insignificant.

NOTE 2
 BUSINESS COMBINATIONS

On August 1, 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. On October 2, 1996, the Corporation issued 565,705 shares of its common stock in exchange for all of the outstanding shares of Randolph County Bancorp, Winchester, Indiana. These transactions were accounted for under the pooling-of-interests method of accounting. The financial information contained herein reflects the mergers and reports the financial condition and results of operations as though the Corporation had been combined as of January 1, 1994. Separate operating results of Union National Bancorp and Randolph County Bancorp for the periods prior to the merger were as follows:

	1996	1995	1994
	----	----	----
Net interest income:			
First Merchants Corporation . . .	\$ 33,059	\$ 27,881	\$ 26,983
Union National Bancorp	2,961	4,562	4,357
Randolph County Bancorp.	1,126	2,654	2,598
	-----	-----	-----
Combined	\$ 37,146	\$ 35,097	\$ 33,938
	-----	-----	-----
Net income:			
First Merchants Corporation . . .	\$ 11,556	\$ 9,858	\$ 9,158
Union National Bancorp	974	1,523	1,403
Randolph County Bancorp.	612	667	802
	-----	-----	-----
Combined	\$ 13,142	\$ 12,048	\$ 11,363
	-----	-----	-----
Net income per share:			
First Merchants Corporation . . .	\$ 1.76	\$ 1.50	\$ 1.39
Union National Bancorp . . . . .	.15	.23	.21
Randolph County Bancorp. . . . .	.09	.11	.13
	-----	-----	-----
Combined	\$ 2.00	\$ 1.84	\$ 1.73
	-----	-----	-----

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 3
 RESTRICTION ON CASH AND DUE FROM BANKS

The Banks are required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 1996, was \$11,859,000.

NOTE 4
 INVESTMENT SECURITIES

	Amortized Cost -----	Gross Unrealized Gains -----	Gross Unrealized Losses -----	Fair Value -----
Available for sale at December 31, 1996				
U.S. Treasury	\$ 21,570	\$ 92	\$ 46	\$ 21,616
Federal agencies	79,130	540	180	79,490
State and municipal	52,026	1,173	106	53,093
Mortgage and other asset-backed securities	42,150	297	275	42,172
Corporate obligations	31,470	156	128	31,498
Marketable equity securities	510			510
	-----	-----	-----	-----
Total available for sale	226,856	2,258	735	228,379
	-----	-----	-----	-----
Held to maturity at December 31, 1996				
U.S. Treasury	249		7	242
Federal agencies	5,729	23	5	5,747
State and municipal	36,405	381	21	36,765
Mortgage and other asset-backed securities	4,844	17	121	4,740
	-----	-----	-----	-----
Total held to maturity	47,227	421	154	47,494
	-----	-----	-----	-----
Total investment securities	\$274,083	\$ 2,679	\$ 889	\$275,873
	-----	-----	-----	-----
Available for sale at December 31, 1995				
U.S. Treasury	\$ 16,239	\$ 184	\$ 11	\$ 16,412
Federal agencies	84,047	1,529	93	85,483
State and municipal	40,391	1,257	68	41,580
Mortgage and other asset-backed securities	47,445	411	283	47,573
Corporate obligations	34,114	289	106	34,297
Marketable equity securities	562	31		593
	-----	-----	-----	-----
Total available for sale	222,798	3,701	561	225,938
	-----	-----	-----	-----
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	40,393	574	57	40,910
Mortgage and other asset-backed securities	5,037	17	21	5,033
Corporate obligations	500		1	499
	-----	-----	-----	-----
Total held to maturity	60,678	668	102	61,244
	-----	-----	-----	-----
Total investment securities	\$283,476	\$ 4,369	\$ 663	\$287,182
	-----	-----	-----	-----

The amortized cost and fair value of securities held to maturity and available for sale at December 31, 1996, by contractual maturity, are shown on the following page. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 4
 INVESTMENT SECURITIES (continued)

	AVAILABLE FOR SALE		HELD TO MATURITY	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity distribution at December 31, 1996:				
Due in one year or less	\$ 40,496	\$ 40,566	\$ 11,990	\$ 12,022
Due after one through five years	120,610	121,038	25,692	25,878
Due after five through ten years	16,136	16,819	3,617	3,698
Due after ten years	6,954	7,274	1,084	1,156
	184,196	185,697	42,383	42,754
Mortgage and other asset-backed securities . .	42,150	42,172	4,844	4,740
Marketable equity securities	510	510		
Totals	\$ 226,856	\$ 228,379	\$ 47,227	\$ 47,494

Securities with a carrying value of approximately \$102,787,000 and \$99,098,000 were pledged at December 31, 1996 and 1995, to secure certain deposits, Federal Home Loan Bank advances and for other purposes as permitted or required by law.

Proceeds from sales of securities available for sale during 1996, 1995 and 1994 were \$13,120,000, \$14,165,000 and \$16,153,000. Gross gains of \$148,000, \$57,800 and \$167,000 and gross losses of \$0, \$113,900 and \$198,000 were realized on those sales.

In December, 1995, the Corporation transferred certain securities from held to maturity to available for sale in accordance with a transition reclassification allowed by the Financial Accounting Standards Board. Such securities had a carrying value of \$52,119,000 and a fair value of \$52,811,000.

NOTE 5
 LOANS AND ALLOWANCE

	1996	1995
Loans at December 31:		
Commercial and industrial loans	\$ 132,134	\$ 98,880
Bankers' acceptances and loans to financial institutions	625	2,925
Agricultural production financing and other loans to farmers	18,906	17,203
Real estate loans:		
Construction	13,167	9,913
Commercial and farmland	97,596	104,731
Residential	253,530	215,738
Individuals' loans for household and other personal expenditures	113,507	102,313
Tax-exempt loans	1,643	1,204
Other loans	1,672	949
	632,780	553,856
Unearned interest on loans	(1,364)	(1,518)
Total loans	\$ 631,416	\$ 552,338

	1996	1995	1994
Allowance for loan losses:			
Balance, January 1	\$ 6,696	\$ 6,603	\$ 6,467
Provision for losses	1,253	1,388	1,202
Recoveries on loans	309	259	422
Loans charged off	(1,636)	(1,554)	(1,488)
Balance, December 31	\$ 6,622	\$ 6,696	\$ 6,603

(continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 5
 LOANS AND ALLOWANCE (continued)

Information on impaired loans is summarized below:

	1996	1995
	----	----
For the year ending December 31:		
Impaired loans with an allowance	\$ 3,124	\$ 2,314
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	868	2,498
	-----	-----
Total impaired loans	\$ 3,992	\$ 4,812
	-----	-----
Allowance for impaired loans (included in the Corporation's allowance for loan losses)	\$ 1,092	\$ 1,177
Average balance of impaired loans	5,213	4,650
Interest income recognized on impaired loans	311	153
Cash basis interest included above	291	93

Nonaccruing and restructured loans totaled \$1,640,000 at December 31, 1994.

Additional interest income of \$57,000 for 1994 would have been recorded had income on nonaccruing and restructured loans been considered collectible and accounted for on the accrual basis under the original terms of the loans.

The Banks have entered into transactions with certain directors, executive officers, significant stockholders, and their affiliates or associates ("related parties"). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

The aggregate amount of loans, as defined, to such related parties were as shown on the right:

Balances, January 1, 1996	\$ 12,314
New loans, including renewals	18,128
Payments, etc., including renewals	(21,379)

Balances, December 31, 1996	\$ 9,063

NOTE 6
 PREMISES AND EQUIPMENT

	1996	1995
	----	----
Cost at December 31:		
Land	\$ 2,829	\$ 2,855
Buildings and leasehold improvements	13,863	13,404
Equipment	13,559	12,432
	-----	-----
Total cost	30,251	28,691
Accumulated depreciation	(14,948)	(13,857)
	-----	-----
Net	\$ 15,303	\$ 14,834
	-----	-----

The Corporation is committed under various noncancelable lease contracts for certain subsidiary office facilities. Total lease expense for 1996, 1995 and 1994 was \$134,000, \$127,000 and \$113,000, respectively. The future minimum rental commitments required under the operating leases in effect at December 31, 1996, expiring at various dates through the year 2016, follow on the right for the years ending December 31:

1997	\$ 133,000
1998	113,000
1999	104,000
2000	88,000
2001	69,000
After 2001	294,000

Total future minimum obligations	\$ 801,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 7
 DEPOSITS

	1996 ----	1995 ----
Deposits at December 31:		
Demand deposits	\$ 225,437	\$ 257,258
Savings deposits	170,179	157,525
Certificates and other time deposits of \$100,000 or more	82,802	70,487
Other certificates and time deposits	316,033	298,666
	-----	-----
Total deposits	\$ 794,451	\$ 783,936
	-----	-----

Certificates and other time deposits maturing in years ending December 31:

1997	\$ 279,664
1998	71,995
1999	27,928
2000	13,234
2001	3,736
After 2001	2,278

	\$ 398,835

NOTE 8
 SHORT-TERM BORROWINGS

	1996 ----	1995 ----
Short-term borrowings at December 31:		
Federal funds purchased	\$ 20,725	\$ 1,700
Securities sold under repurchase agreements . .	20,054	28,887
U.S. Treasury demand notes	4,258	6,790
	-----	-----
Total short-term borrowings	\$ 45,037	\$ 37,377
	-----	-----

Securities sold under repurchase agreements consist of obligations of the Banks to other parties. The obligations are secured by U.S. Treasury and Federal agency obligations and generally mature within one to 185 days from the transaction date. The maximum amount of outstanding agreements at any month-end during 1996 and 1995 totaled \$52,221,000 and \$58,097,000 and the monthly average of such agreements totaled \$42,140,000 and \$35,436,000.

NOTE 9
 FEDERAL HOME LOAN BANK ADVANCES

Advances from FHLB at December 31:

	1996 -----		1995 -----	
	Amount -----	Weighted Average Interest Rate ----	Amount -----	Weighted Average Interest Rate ----
Maturities in years ending December 31:				
1996			\$ 5,000	6.46%
1997	\$ 2,000	4.76%	2,000	4.76
1998	5,000	5.61	2,000	5.29
1999	2,150	5.81		
	-----		-----	
Total advances	\$ 9,150	5.48	\$ 9,000	5.83
	-----		-----	

The terms of a security agreement with the FHLB require the Corporation to pledge as collateral for advances qualifying first mortgage loans in an amount equal to at least 160 per cent of these advances. Advances are subject to restrictions or penalties in the event of prepayment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 10
 LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheet. The loans are serviced primarily for the Federal Home Loan Mortgage Corporation and the unpaid balances totaled \$5,997,000 and \$3,546,000 at December 31, 1996 and 1995.

In 1996, the Corporation adopted SFAS No. 122, ACCOUNTING FOR MORTGAGE SERVICING RIGHTS. The adoption of this statement had no material impact on the Corporation's financial condition and results of operations.

NOTE 11
 INCOME TAX

	1996	1995	1994
	----	----	----
Income tax expense, for the year ended December 31:			
Currently payable:			
Federal	\$ 4,903	\$ 4,400	\$ 4,310
State	1,655	1,484	1,414
Deferred:			
Federal	336	299	(73)
State	65	78	9
	-----	-----	-----
Total income tax expense	\$ 6,959	\$ 6,261	\$ 5,660
	-----	-----	-----
Reconciliation of federal statutory to actual tax expense (benefit):			
Federal statutory income tax at 34%	\$ 6,834	\$ 6,225	\$ 5,788
Tax-exempt interest	(1,140)	(1,087)	(1,177)
Effect of state income taxes	1,135	1,031	939
Other	130	92	110
	-----	-----	-----
Actual tax expense	\$ 6,959	\$ 6,261	\$ 5,660
	-----	-----	-----

Tax expense (benefit) applicable to security gains and losses for the years ended December 31, 1996, 1995 and 1994, was \$50,300, (\$7,900) and (\$6,800), respectively.

The components of the deferred tax asset included in other assets are as shown in the table below.

No valuation allowance at December 31, 1996, was considered necessary.

	1996	1995
	----	----
Deferred Tax Asset at December 31:		
Differences in depreciation methods	\$ (983)	\$ (923)
Differences in accounting for loans and securities	(78)	(63)
Differences in accounting for loan fees	157	364
Differences in accounting for loan losses	2,571	2,575
Deferred compensation	285	280
Differences in accounting for pensions and other employee benefits	118	66
Net unrealized gain on securities available for sale	(607)	(1,245)
Alternative minimum tax credit carryover		123
State income tax	(152)	(166)
Other	(75)	(12)
	-----	-----
Total	\$ 1,236	\$ 999
	-----	-----
Assets	\$ 3,131	\$ 3,411
Liabilities	(1,895)	(2,412)
	-----	-----
Total	\$ 1,236	\$ 999
	-----	-----

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 12
 COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Banks' exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Banks use the same credit policies in making such commitments as they do for instruments that are included in the consolidated balance sheet.

Financial instruments whose contract amount represents credit risk as of December 31, were as follows:

	1996	1995
	----	----
Commitments to extend credit	\$137,653	\$128,940
Standby letters of credit	2,874	3,238

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Banks evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Banks upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party.

The Corporation and Banks are also subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Corporation.

NOTE 13
 STOCKHOLDERS' EQUITY

National and state banking laws restrict the maximum amount of dividends that a bank may pay in any calendar year. National and state banks are limited to the bank's retained net income (as defined) for the current year plus those for the previous two years. The amount at December 31, 1996, available for 1997 dividends to the Corporation, is \$21,512,000. As a practical matter, the subsidiaries restrict dividends to a lesser amount because of the need to maintain an adequate capital structure.

Total stockholders' equity for all subsidiaries at December 31, 1996, was \$110,349,000, of which \$88,837,000 was restricted from dividend distribution to the Corporation.

The Corporation has a Dividend Reinvestment and Stock Purchase Plan, enabling stockholders to elect to have their cash dividends on all shares held automatically reinvested in additional shares of the Corporation's common stock. In addition, stockholders may elect to make optional cash payments up to an aggregate of \$2,500 per quarter for the purchase of additional shares of common stock. The stock is credited to participant accounts at fair market value. Dividends are reinvested on a quarterly basis. At December 31, 1996, 364,334 shares of common stock were reserved for purchase under the plan.

On August 8, 1995, the Board of Directors of the Corporation declared a three-for-two stock split on its common shares. The new shares were distributed on October 27, 1995, to holders of record on October 20, 1995.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 14
 REGULATORY CAPITAL

The Corporation and Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate actions by the regulatory agencies that, if undertaken, could have a material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and Banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

At December 31, 1996, the management of the Corporation believes that it meets all capital adequacy requirements to which it is subject. The most recent notifications from the regulatory agencies categorized the Corporation and Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Corporation and Banks must maintain a minimum total capital, Tier I capital to risk-weighted assets and Tier I capital to average assets of 10 per cent, 6 per cent and 5 per cent, respectively. There have been no conditions or events since that notification that management believes have changed this categorization.

Actual and required capital amounts and ratios are as follows:

	1996			
	Actual		Required for	
	Amount	Ratio	Adequate Capital (1)	Ratio
December 31				
Total Capital (1) (to risk-weighted assets)				
Consolidated	\$116,693	18.0%	\$ 51,884	8.0%
First Merchants	69,651	17.8	31,300	8.0
Pendleton	11,383	17.9	5,074	8.0
First United	7,091	17.2	3,302	8.0
Randolph County	9,985	14.9	5,364	8.0
Union National	17,672	17.9	7,914	8.0
Tier I Capital (1) (to risk-weighted assets)				
Consolidated	\$110,072	17.0%	\$25,942	4.0%
First Merchants	66,143	16.9	15,650	4.0
Pendleton	10,629	16.8	2,537	4.0
First United	6,663	16.1	1,651	4.0
Randolph County	9,234	13.8	2,682	4.0
Union National	16,492	16.7	3,957	4.0
Tier I Capital (1) (to average assets)				
Consolidated	\$110,072	11.6%	\$38,012	4.0%
First Merchants	66,143	11.6	22,849	4.0
Pendleton	10,629	12.3	3,462	4.0
First United	6,663	11.3	2,351	4.0
Randolph County	9,234	12.9	2,863	4.0
Union National	16,492	9.5	6,954	4.0

(1) As defined by regulatory agencies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 15
 EMPLOYEE BENEFIT PLANS

The Corporation's defined-benefit pension plans cover substantially all of the Banks' employees. The benefits are based primarily on years of service and employees' pay near retirement. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Pension expense was \$191,000 for 1996, \$253,000 for 1995 and \$270,000 for 1994.

The following table sets forth the plans' funded status and amounts recognized in the consolidated balance sheet at December 31:

	1996 ----	1995 ----
Actuarial present value of:		
Accumulated benefit obligation including vested benefits of \$10,885 and \$10,478.	\$ 11,133	\$ 10,691
Projected benefit obligation for service rendered to date.	\$ (13,060)	\$ (12,861)
Plan assets at fair value, primarily interest-bearing deposits and corporate bonds and securities	15,188	13,727
Plan assets in excess of projected benefit obligation.	2,128	866
Unrecognized net gain from experience different than that assumed.	(1,615)	(358)
Unrecognized prior service cost.	(169)	82
Unrecognized net transition asset.	(638)	(758)
Accrued pension cost included in the balance sheet	\$ (294)	\$ (168)

	1996 ----	1995 ----	1994 ----
Pension expense includes the following components:			
Service cost-benefits earned during the year	\$ 537	\$ 462	\$ 548
Interest cost on projected benefit obligation.	921	845	778
Actual return on plan assets	(1,966)	(2,633)	(130)
Net amortization and deferral.	699	1,579	(926)
	\$ 191	\$ 253	\$ 270

	1996 ----	1995 ----	1994 ----
Assumptions used in the accounting as of December 31 were:			
Discount rate.	7.50%	7.50%	8.25%
Rate of increase in compensation	4.50%	4.50%	4.50%
Expected long-term rate of return on assets.	8.75%	8.75%	8.75%

Randolph County employees participated in a defined-benefit pension plan, which is included in the above disclosures. This plan was merged with the Corporation's plan as of December 31, 1996. Randolph County's plan assumptions used in the accounting were different than the Corporation's plan assumptions. However, the differences do not have a material impact on the disclosures presented.

In 1989, stockholders approved the 1989 Stock Option Plan, reserving 112,500 shares of Corporation common stock for the granting of options to certain employees. The exercise price of the shares may not be less than the fair market value of the shares upon grant of the option. Options become 100 per cent vested when granted and are fully exercisable generally six months after the date of grant, for a period of ten years. There were no shares available for grant at December 31, 1996.

(continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 15
 EMPLOYEE BENEFIT PLANS (continued)

On March 31, 1994, stockholders approved the 1994 Stock Option Plan, reserving 315,000 shares of Corporation common stock for the granting of options to certain employees and non-employee directors. The exercise price of the shares may not be less than the fair market value of the shares upon the grant of the option. Options become 100 per cent vested when granted and are fully exercisable generally six months after the date of the grant, for a period of ten years. There were 144,775 shares available for grant at December 31, 1996.

The following is a summary of the status of the Corporation's stock option plans and changes in those plans as of and for the years ended December 31, 1996, 1995 and 1994. The number of shares and prices have been restated to give effect to the Corporation's 1995 stock split.

Options -----	Year Ended December 31					
	1996 ----	Weighted Average Exercise Price -----	1995 ----	Weighted Average Exercise Price -----	1994 ----	Weighted Average Exercise Price -----
Outstanding, beginning of year	223,059	\$ 18.07	179,807	\$ 15.81	127,345	\$ 13.72
Granted.	53,300	24.27	57,150	24.16	59,775	20.13
Exercised.	(4,237)	15.23	(13,898)	13.26	(7,313)	14.75
-----	-----	-----	-----	-----	-----	-----
Outstanding, end of year.	272,122	\$ 19.37	223,059	\$ 18.07	179,807	\$ 15.81
-----	-----	-----	-----	-----	-----	-----
Options exercisable at year end	218,822		165,909		120,032	
Weighted-average fair value of options granted during the year		\$ 5.09		\$ 4.90		

As of December 31, 1996, other information by exercise price range for options outstanding and exercisable is as follows:

Exercise Price Range -----	Outstanding			Exercisable	
	Number Of Shares -----	Weighted-Average Exercise Price -----	Weighted-Average Remaining Contractual Life -----	Number Of Shares -----	Weighted-Average Exercise Price -----
\$ 9.11 - 11.33	58,723	\$ 10.50	3.54 years	58,723	\$ 10.50
17.22 - 25.00	213,399	21.81	7.95 years	160,099	20.57
-----	-----	-----	-----	-----	-----
	272,122	\$ 19.37	6.99 years	218,822	\$ 17.87
-----	-----	-----	-----	-----	-----

The Corporation's stock option plans are accounted for in accordance with Accounting Principles Board Opinion ("APB") No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations. The exercise price of each option was equal to the market price of the Corporation's stock on the date of grant; therefore, no compensation expense was recognized.

Although the Corporation has elected to follow APB No. 25, SFAS No. 123 requires pro forma disclosures of net income and earnings per share as if the Corporation had accounted for its employee stock options under that Statement. The fair value of each option grant was estimated on the grant date using an option-pricing model with the following assumptions:

	1996 ----	1995 ----
Risk-free interest rates.	6.66%	6.57%
Dividend yields	3.41%	3.23%
Volatility factors of expected market price common stock.	12.00%	12.00%
Weighted-average expected life of the options	8.5 years	8.5 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 15
 EMPLOYEE BENEFIT PLANS (continued)

Under SFAS No. 123, compensation cost is recognized in the amount of the estimated fair value of the options and amortized to expense over the options' vesting period. The pro forma effect on net income and earnings per share of this statement are shown on the right:

	1996
Net Income	----
As reported.	\$ 13,142
Pro Forma.	12,852
Earnings per share	
As reported.	\$ 2.00
Pro Forma.	1.95

In 1994, the stockholders approved the 1994 Employee Stock Purchase Plan, enabling eligible employees to purchase the Corporation's common stock. A total of 168,750 shares of the Corporation's common stock are reserved for issuance pursuant to the plan. The price of the stock to be paid by the employees is determined by the Corporation's compensation committee, but may not be less than 85 per cent of the lesser of the fair market value of the Corporation's common stock at the beginning or at the end of the offering period. Common stock purchases are made annually and are paid through advance payroll deductions of up to 20 per cent of eligible compensation.

Participants under the plan purchased 15,175 shares in 1996 at \$19.62 per share. The fair market value per share on the purchase date was \$25.00.

At December 31, 1996, 120,998 shares of Corporation common stock were reserved for purchase under the plan, and \$150,438 has been withheld from compensation, plus interest, toward the purchase of shares after June 30, 1997, the end of the annual offering period.

The Corporation's Employee Stock Purchase Plan is accounted for in accordance with APB No. 25. Although the Corporation has elected to follow APB No. 25, SFAS No. 123 requires pro forma disclosures of net income and earnings per share as if the Corporation had accounted for the purchased shares under that statement. The pro forma disclosures are included in the table above and were estimated using an option pricing model with the following assumptions for 1996 and 1995, respectively: dividend yield of 3.41 and 3.23 per cent; an expected life of one year for both years; expected volatility of 12 per cent; and risk-free interest rates of 6.66 and 6.57 per cent. The fair value of those purchase rights granted in 1996 and 1995 was \$4.68 and \$3.95, respectively.

The Banks have retirement savings 401(k) plans in which substantially all employees may participate. The Banks match employees' contributions at the rate of 25 per cent (30 per cent at Union National) for the first 5 per cent (6 per cent at Union National) of base salary contributed by participants. The Banks' expense for the plans was \$92,000 for 1996, \$81,000 for 1995 and \$74,000 for 1994. Union National's plan was merged with the Corporation's plan as of December 31, 1996.

Union National has an Employee Stock Ownership Plan covering substantially all of its employees. The cost of the plan is borne by Union National through contributions to an Employee Stock Ownership Trust in amounts determined by its Board of Directors. The contributions to the plan in 1996, 1995 and 1994 were \$91,700, \$79,000 and \$70,300, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 16
 FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

CASH AND CASH EQUIVALENTS--The fair value of cash and cash equivalents approximates carrying value.

INTEREST-BEARING DEPOSITS--The fair value of interest-bearing time deposits approximates carrying value.

INVESTMENT SECURITIES--Fair values are based on quoted market prices.

MORTGAGE LOANS HELD FOR SALE--The fair value of mortgages held for sale approximates carrying values.

LOANS--For both short-term loans and variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value for other loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

INTEREST RECEIVABLE/PAYABLE--The fair values of interest receivable/payable approximate carrying values.

FEDERAL RESERVE AND FEDERAL HOME LOAN BANK STOCK--The fair value of FRB and FHLB stock is based on the price at which it may be resold to the FRB and FHLB.

DEPOSITS--The fair values of noninterest-bearing demand accounts, interest-bearing demand accounts and savings deposits are equal to the amount payable on demand at the balance sheet date. The carrying amounts for variable rate, fixed-term certificates of deposit approximate their fair values at the balance sheet date. Fair values for fixed-rate certificates of deposit and other time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on such time deposits.

FEDERAL FUNDS PURCHASED, SECURITIES SOLD UNDER REPURCHASE AGREEMENTS AND U.S. TREASURY DEMAND NOTES--These financial instruments are short-term borrowing arrangements. The rates at December 31, 1996 and 1995, approximate market rates, thus the fair value approximates carrying value.

FEDERAL HOME LOAN BANK ADVANCES--The fair value of these borrowings is estimated using a discounted cash flow calculation, based on current rates for similar debt.

The estimated fair values of the Corporation's financial instruments are as follows:

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets at December 31:				
Cash and cash equivalents	\$ 35,032	\$ 35,032	\$ 77,874	\$ 77,874
Interest-bearing deposits	290	290	259	259
Investment securities available for sale	228,379	228,379	225,938	225,938
Investment securities held to maturity	47,227	47,494	60,678	61,244
Mortgage loans held for sale	284	284	736	736
Loans	631,416	632,151	552,338	552,795
FRB and FHLB stock	3,090	3,090	2,702	2,702
Interest receivable	8,643	8,643	9,000	9,000
Liabilities at December 31:				
Deposits	794,451	795,369	783,936	786,064
Short-term borrowings:				
Federal funds purchased	20,725	20,725	1,700	1,700
Securities sold under repurchase agreements	20,054	20,054	28,887	28,887
U.S. Treasury demand notes	4,258	4,258	6,790	6,790
FHLB Advances	9,150	9,340	9,000	8,976
Interest payable	3,376	3,376	3,415	3,415

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 17
 CONDENSED FINANCIAL INFORMATION (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations, and cash flows of the Corporation:

CONDENSED BALANCE SHEET

	December 31	
	1996	1995
ASSETS		
Cash	\$ 413	\$ 633
Security purchased with agreement to resell to an affiliate	1,000	
Investment securities available for sale	258	342
Investment in subsidiaries	110,349	103,078
Goodwill	570	587
Other assets	195	762
Total assets	\$ 112,785	\$ 105,402
LIABILITIES		
STOCKHOLDERS' EQUITY	\$ 98	\$ 435
	112,687	104,967
Total liabilities and stockholders' equity	\$ 112,785	\$ 105,402

CONDENSED STATEMENT OF INCOME

	Year Ended December 31		
	1996	1995	1994
INCOME			
Dividends from subsidiaries	\$ 5,420	\$ 5,378	\$ 4,894
Other income	25	51	23
Total income	5,445	5,429	4,917
EXPENSES			
Amortization of core deposit intangibles, goodwill, and fair value adjustments	43	38	32
Business combination expenses	258		
Other expenses	269	189	184
Total expenses	570	227	216
Income before income tax benefit and equity in undistributed income of subsidiaries	4,875	5,202	4,701
Income tax benefit	(100)	(72)	(72)
Income before equity in undistributed income of subsidiaries	4,975	5,274	4,773
Equity in undistributed income of subsidiaries	8,167	6,774	6,590
Net income	\$ 13,142	\$ 12,048	\$ 11,363

(continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 17
CONDENSED FINANCIAL INFORMATION (Parent Company Only, continued)

CONDENSED STATEMENT OF CASH FLOWS

	Year Ended December 31		
	1996	1995	1994
OPERATING ACTIVITIES:			
Net income	\$ 13,142	\$ 12,048	\$ 11,363
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	20	47	34
Equity in undistributed income of subsidiaries	(8,167)	(6,774)	(6,590)
Security gains	(19)	(20)	(9)
Net change in:			
Other assets	567	(57)	(149)
Other liabilities	(337)	81	29
Net cash provided by operating activities	5,206	5,325	4,678
INVESTING ACTIVITIES:			
Purchase of a security with an agreement to resell	(1,000)		
Purchase of securities available for sale		(309)	(43)
Proceeds from sales of securities available for sale	103	113	68
Other investing activities	(78)		(203)
Net cash used by investing activities	(975)	(196)	(178)
FINANCING ACTIVITIES:			
Cash dividends	(5,369)	(4,456)	(3,995)
Stock issued under employee benefit plans	298	277	250
Stock issued under dividend reinvestment and stock purchase plan	558	456	357
Stock options exercised	64	192	108
Stock redeemed		(1,119)	(1,556)
Cash paid in lieu of issuing fractional shares	(2)	(4)	
Net cash used by financing activities	(4,451)	(4,654)	(4,836)
Net change in cash on deposit	(220)	475	(336)
Cash on deposit, beginning of year	633	158	494
Cash on deposit, end of year	\$ 413	\$ 633	\$ 158

NOTE 18
QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following table sets forth certain quarterly results for the years ended December 31, 1996 and 1995:

QUARTER ENDED	INTEREST INCOME	INTEREST EXPENSE	NET INTEREST INCOME	PROVISION FOR LOAN LOSSES	NET INCOME	AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE
March, 1996	\$ 17,010	\$ 8,037	\$ 8,973	\$ 280	\$ 3,187	6,564,529	\$.49
June, 1996	16,992	7,856	9,136	300	3,273	6,570,648	.50
September, 1996	17,511	8,201	9,310	295	3,221	6,591,219	.49
December, 1996	17,982	8,255	9,727	378	3,461	6,598,271	.52
	\$ 69,495	\$ 32,349	\$ 37,146	\$ 1,253	\$ 13,142	6,581,167	\$ 2.00
March, 1995	\$ 15,508	\$ 6,831	\$ 8,677	\$ 236	\$ 2,924	6,559,622	\$.45
June, 1995	16,512	7,740	8,772	355	3,015	6,564,113	.46
September, 1995	16,994	8,502	8,492	266	3,052	6,571,138	.46
December, 1995	17,434	8,278	9,156	531	3,057	6,559,364	.47
	\$ 66,448	\$ 31,351	\$ 35,097	\$ 1,388	\$ 12,048	6,563,559	\$ 1.84

MAP: FIRST MERCHANTS CORPORATION MARKET AREA

This graphic is a map of Indiana showing the market area for First Merchants Corporation ("Corporation"). The map illustrates the location of Delaware, Madison, Henry, Randolph, Union, Fayette, and Wayne counties, Indiana. The map identifies the communities with Corporation offices. The following table summarizes the Corporation's office locations:

LOCATION	COUNTY
Muncie	Delaware
Albany	Delaware
Daleville	Delaware
Eaton	Delaware
Pendleton	Madison
Edgewood	Madison
Ingalls	Madison
Lapel	Madison
Markleville	Madison
Middletown	Henry
Sulphur Springs	Henry
Mooreland	Henry
Winchester	Randolph
Connersville	Fayette
Liberty	Union
Richmond	Wayne

 Bar Chart: RETURN ON AVERAGE ASSETS

A bar graph with the following plot points for the respective years.

	RETURN ON AVERAGE ASSETS (per cent)		
	1994	1995	1996
	----	----	----
Return on Average Assets	1.33%	1.35%	1.41%

A narrative discussion of this data is provided in the Management's Discussion & Analysis, under the caption "Results of Operations."

 Bar Chart: RETURN ON AVERAGE EQUITY

A bar graph with the following plot points for the respective years.

	RETURN ON AVERAGE EQUITY (per cent)		
	1994	1995	1996
	----	----	---
Return on Average Equity	12.42%	12.17%	12.16%

A narrative discussion of the data is provided in the Management's Discussion & Analysis, under the caption "Results of Operations."

 Bar Chart: NET LOAN LOSSES

A bar graph with the following plot points for the respective years.

	NET LOAN LOSSES (as a per cent of average loans)		
	1994	1995	1996
	----	----	----
First Merchants Corporation	.21%	.24%	.23%
Peer Group	.25%	.26%	N/A

A narrative discussion of this data is provided in the Management's Discussion & Analysis, under the caption "Asset Quality/Provision for Loan Losses."

EXHIBIT 21--SUBSIDIARIES OF THE REGISTRANT

Name	State of Incorporation
-----	-----
First Merchants Bank, National Association	U.S.
Pendleton Banking Company. . . . .	.Indiana
First United Bank. . . . .	.Indiana
The Union County National Bank of Liberty.	U.S.
The Randolph County Bank . . . . .	.Indiana

EXHIBIT 23--CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference to Registration Statements on Form S-8, File Number 33-28900 and 33-28901, of our report dated January 24, 1997, on the consolidated financial statements of First Merchants Corporation, which report is incorporated by reference in the Annual Report on Form 10-K of First Merchants Corporation.

/s/ Geo. S. Olive & Co. LLC

Indianapolis, Indiana
March 20, 1997

EXHIBIT 99.1--FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR
FIRST MERCHANTS CORPORATION EMPLOYEE STOCK PURCHASE PLAN

The annual financial statements and independent auditor's report thereon for First Merchants Corporation Employee Stock Purchase Plan for the year ending June 30, 1997, will be filed as an amendment to the 1996 Annual Report on Form 10-K no later than October 28, 1997.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CORPORATION'S FORM 10-K FOR THE YEAR-TO-DATE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR		
	DEC-31-1996	
	JAN-01-1996	
	DEC-31-1996	33,882
	290	
	1,150	
	0	
228,379	47,227	
	47,494	
		631,700
		6,621
	967,993	
		794,451
		45,037
	6,667	
		9,150
	0	
		0
		825
		111,862
967,993		
	52,185	
	16,664	
	646	
	69,495	
	29,139	
	32,349	
	37,146	
		1,253
	148	
	24,135	
	20,100	
13,142		
	0	
		0
	13,142	
	2.00	
	2.00	
	4.46	
	2,777	
	1,699	
	1,540	
	7,732	
	6,696	
	1,636	
	309	
	6,622	
	5,560	
	0	
1,062		

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION RESTATED AS A RESULT OF
POOLING OF INTEREST TRANSACTIONS.

1,000

YEAR	DEC-31-1995	JAN-01-1995	DEC-31-1995
			38,974
	259		
		38,900	
		0	
225,938			
	60,678		
	61,244		
			553,074
			6,696
	942,156		
			783,936
			37,377
	6,875		
			9,000
	0		
			0
			820
			104,147
942,156			
	49,141		
	16,121		
	1,186		
	66,448		
	28,228		
	31,351		
	35,097		
			1,388
	(30)		
			22,993
			18,308
12,048			
			0
			0
			12,048
			1.84
			1.84
			4.38
			576
			1,119
	1,075		
	6,736		
	6,603		
			1,554
			259
	6,696		
	5,737		
			0
959			

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION RESTATED AS A RESULT OF
POOLING OF INTEREST TRANSACTIONS.

1,000

YEAR	DEC-31-1994	JAN-01-1994	DEC-31-1994
			48,401
	23	5,175	0
122,155	136,793	134,196	
			528,641
			6,603
	868,153	720,009	40,631
	6,759	8,000	0
			0
			610
868,153			92,144
	41,794	15,597	376
	57,767	21,403	23,829
	33,938	1,202	(18)
		22,632	17,023
11,363			0
			0
	11,363	1.73	1.73
		4.46	398
		1,322	1,242
	1,242	6,455	6,467
		1,488	422
	6,603		
	5,686	0	
917			