FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _______ to _______

Commission File Number 0-17071

First Merchants Corporation

(Exact name of registrant as specified in its charter)

Indiana	35-1544218
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 East Jackson Street Muncie, IN	47305-2814
(Address of principal executive office)	(Zip code)

(765) 747-1500

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [x] No [ ]

As of October 31, 2002, there were 16,309,848 outstanding common shares, without par value, of the registrant.

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX

Page No.

FIRST MERCHANTS CORPORATION

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

	September 30, 2002 (Unaudited)	December 31, 2001
ASSETS:		
Cash and due from banks	$ 73,223	$ 68,743
Federal funds sold	8,750	34,285
Cash and cash equivalents	81,973	103,028
Interest-bearing deposits	10,222	3,871
Investment securities available for sale	335,968	231,668
Investment Securities held to maturity	9,484	8,654
Mortgage loans held for sale	14,089	307
Loans, net of allowance for loan losses of $22,147 and $15,141	1,971,891	1,344,445
Premises and equipment	39,179	27,684
Federal Reserve and Federal Home Loan Bank Stock	11,097	8,350
Interest receivable	18,622	12,024
Goodwill	86,424	26,081
Core deposit intangibles	20,329	6,096
Cash surrender value of life insurance	14,143	6,470
Other assets	16,065	8,357
Total assets	$2,629,486	$ 1,787,035
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 246,410	$ 186,987
Interest-bearing	1,773,325	1,234,264
Total deposits	2,019,735	1,421,251
Borrowings	328,933	174,404
Interest payable	6,813	5,488
Other liabilities	14,132	6,764
Total liabilities	2,369,613	1,607,907
STOCKHOLDERS' EQUITY:		
Perferred stock, no-par value:		
Authorized and unissued-500,000 shares		
Common Stock, $.125 stated value:		
Authorized --- 50,000,000 shares		
Issued and outstanding - 16,309,442 and 13,303,822 shares	2,039	1,663
Additional paid-in capital	116,204	50,563
Retained earnings	135,266	124,304
Accumulated other comprehensive income	6,364	2,598
Total stockholders' equity	259,873	179,128
Total liabilities and stockholders' equity	$2,629,486	$ 1,787,035

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2002	2001	2002	2001
Interest Income:				
Loans receivable				
Taxable	$35,362	$27,152	$94,504	$77,322
Tax exempt	169	106	403	310
Investment securities				
Taxable	2,442	3,027	6,986	9,343
Tax exempt	1,793	1,032	4,450	3,083
Federal funds sold	123	109	388	404
Deposits with financial institutions	53	12	159	32
Federal Reserve and Federal Home Loan Bank stock	206	120	527	419
Total interest income	40,148	31,558	107,417	90,913
Interest expense:				
Deposits	10,696	11,670	29,766	35,817
Borrowings	4,124	2,626	9,863	7,874
Total interest expense	14,820	14,296	39,629	43,691
Net Interest Income	25,328	17,262	67,788	47,222
Provision for loan losses	1,821	1,023	4,297	2,371
Net Interest Income After Provision for Loan Losses	23,507	16,239	63,491	44,851
Other Income:				
Net realized gains (losses) on available-for-sale securities	162	(167)	570	(167)
Other Income	7,484	4,798	19,291	13,809
Total other income	7,646	4,631	19,861	13,642
Total other expenses	19,187	11,980	51,129	32,959
Income before income tax	11,966	8,890	32,223	25,534
Income tax expense	4,139	2,870	10,983	8,834
Net Income	$ 7,827	$ 6,020	$21,240	$16,700
Per share:				
Basic Net Income(1)	.49	.45	1.39	1.29
Diluted Net Income(1)	.48	.44	1.37	1.28
Cash Dividends Paid	.23	.23	.69	.69

(1) Prior period per share amounts have been restated for the 5% stock dividend paid in September, 2002.

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2002	2001	2002	2001
Net Income	$ 7,827	$ 6,020	$ 21,240	$ 16,700
Other comprehensive income, net of tax:				
Unrealized gains on securities available for sale:				
Unrealized holding gains arising during the period, net of income tax expense of $1,563, $1,219, $2,739, and $2,448	2,345	1,827	4,109	3,670
Less: Reclassification adjustment for gains (losses) included in net income, net of income tax (expense) benefit of $(65), $66, $(228) and $66.	97	(101)	342	(101)
	2,248	1,928	3,767	3,771
Comprehensive income	$ 10,075	$ 7,948	$ 25,007	$ 20,471

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	2002	2001
Balances, January 1	$ 179,128	$ 156,063
Net income	21,240	16,700
Cash dividends	(10,243)	(8,233)
Other comprehensive income, net of tax	3,767	3,771
Stock issued under employee benefits plans	658	504
Stock issued under dividend reinvestment and stock purchase plan	686	583
Stock options exercised	458	176
Stock Redeemed	(4,333)	(6,580)
Issuance of stock in acquisitions	68,547	14,601
Cash paid in lieu of fractional shares	(35)	
Balances, September 30	$ 259,873	$ 177,585

See notes to consolidated condensed financial statements

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30, 2002	2001
Cash Flows From Operating Activities:		
Net income	$ 21,240	$ 16,700
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	4,297	2,371
Depreciation and amortization	4,969	3,430
Securities amortization, net	259	(127)
Securities losses (gains), net	(570)	167
Gains on sale of premises and equipment		(70)
Mortgage loans originated for sale	(78,607)	(14,285)
Proceeds from sales of mortgage loans	72,384	13,455
Change in interest receivable	(513)	982
Change in interest payable	(524)	(622)
Other adjustments	(6,346)	(981)
Net cash provided by operating activities	$ 16,589	$ 21,020
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	4,075	(2,236)
Purchases of		
Securities available for sale	(105,594)	(15,933)
Proceeds from maturities of		
Securities available for sale	91,640	82,347
Securities held to maturity	2,935	3,295
Proceeds from sales of		
Securities available for sale	16,908	770
Net change in loans	(87,704)	(51,465)
Purchase of FHLB stock	(403)	(98)
Purchases of premises and equipment	(4,179)	(1,256)
Proceeds from sale of fixed assets		162
Net cash received (paid) in acquisitions	(12,532)	5,261
Net cash provided (used) by investing activities	(94,854)	20,847

(continued)

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	$ (27,333)	$ (21,959)
Certificates of deposit and other time deposits	18,536	(28,021)
Borrowings	78,816	18,874
Cash dividends	(10,243)	(8,233)
Stock issued under employee benefit plans	658	504
Stock issued under dividend reinvestment and stock purchase plan	686	583
Stock options exercised	458	176
Stock repurchased	(4,333)	(6,580)
Cash paid in lieu of fractional shares	(35)	
Net cash provided (used) by financing activities	57,210	(44,656)
Net Change in Cash and Cash Equivalents	(21,055)	(2,789)
Cash and Cash Equivalents, January 1	103,028	67,463
Cash and Cash Equivalents, September 30	$ 81,973	$ 64,674

See notes to consolidated condensed financial statements.

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

NOTE 1. General

The significant accounting policies followed by First Merchants Corporation ("Corporation") and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting, except for the change in method of accounting or adoption of accounting pronouncements discussed more fully in Note 2. All adjustments which are of a normal, recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated condensed financial statements.

The consolidated condensed balance sheet of the Corporation as of December 31, 2001 has been derived from the audited consolidated balance sheet of the Corporation as of that date. Certain information and note disclosures normally included in the Corporation's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Form 10-K annual report filed with the Securities and Exchange Commission.

The results of operations for the period are not necessarily indicative of the results to be expected for the year.

NOTE 2. Accounting Matters

ACCOUNTING FOR A BUSINESS COMBINATION

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

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

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

ACCOUNTING FOR GOODWILL

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

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

The Corporation adopted these new accounting rules on January 1, 2002. As a result, the Corporation will not amortize the goodwill it has recorded, but will make an annual assessment of any impairment in goodwill and, if necessary, recognize an impairment loss at that time. The Corporation had goodwill of $86,424,000 at September 30, 2002 and identified no impairment loss.

(Table dollars in thousands)

NOTE 2. Accounting Matters (continued)

ACQUISITIONS OF CERTAIN FINANCIAL INSTITUTIONS

SFAS No. 147, "Acquisitions of Certain Financial Institutions" became effective October 1, 2002. This standard requires any unidentifiable intangible assets previously recorded as the result of a business combination to be reclassified as goodwill, and the amortization of this asset will cease. This standard has no immediate impact on the financial position and results of operations of the Corporation, as the Corporation did not have any recorded unidentified intangible assets or goodwill that had continued to be amortized.

NOTE 3. Business Combinations

Effective September 6, 2002, the Corporation acquired Stephenson Insurance Service, Inc. ("SIS"), which was merged into First Merchants Insurance Services, Inc. , a wholly-owned subsidiary of the Corporation. The Corporation issued 36,276 shares of its common stock at a cost of $27.47 per share to complete the transaction. This acquisition was deemed to be an immaterial acquisition.

On August 28, 2002, the Corporation signed a definitive agreement to acquire CNBC Bancorp ("CNBC"), Columbus ,Ohio. The acquisition will be accounted for under the purchase method of accounting. Under the terms of the agreement, the Corporation will exchange 1.01 shares of the Corporation's common stock or $29.57 in cash for each of the outstanding shares of CNBC. However, no more than $24,562,000 aggregate cash may be paid in the merger, and there may be allocations of stock to certain shareholders if this threshold is exceeded. The transaction is subject to approval by stockholders of CNBC, and appropriate regulatory agencies. The Corporation anticipates amortizing core deposit intangibles over ten years. As of December 31, 2001 CNBC had total assets and shareholders' equity of $296,184,000 and $23,284,000 respectively.

On April 1, 2002, the Corporation acquired 100% of the outstanding stock of Lafayette Bancorporation, the holding company of Lafayette Bank and Trust Company, Lafayette, Indiana ("Lafayette"). Lafayette is a state chartered bank with branches located in central Indiana. Lafayette Bancorporation was merged into the Corporation, and Lafayette maintained its state charter as a subsidiary of First Merchants Corporation. The Corporation issued approximately 2,911,712 shares of its common stock at a cost of $22.36 per share and approximately $50,867,000 in cash to complete the transaction. As a result of the acquisition, the Corporation will have an opportunity to increase its customer base and continue to increase its market share. The purchase had a recorded acquisition price of $115,978,000, including goodwill of $57,893,000 none of which is deductible for tax purposes. Additionally, core deposit intangibles totaling $15,458,000 were recognized and will be amortized over 10 years using the 150% declining balance method.

The combination was accounted for under the purchase method of accounting. All assets and liabilities were recorded at their fair values as of April 1, 2002. The purchase accounting adjustments will be amortized over the life of the respective asset or liability. Lafayette's results of operations are included in the Corporation's consolidated income statement beginning April 1, 2002. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Investments	$104,717
Loans	552,016
Premises and equipment	10,447
Core deposit intangibles	15,458
Goodwill	57,893
Other	64,490
Total assets acquired	805,021
Deposits	607,281
Other	81,762
Total liabilities acquired	689,043
Net assets acquired	$115,978

(Table dollars in thousands)

NOTE 3. Business Combinations (continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Net Interest Income:	$ 25,328	$ 23,139	$ 73,720	$ 64,046
Net Income:	7,827	7,718	21,420	21,281
Per share - combined:				
Basic Net Income	.49	.54	1.31	1.34
Diluted Net Income	.48	.54	1.30	1.34

Effective January 1, 2002, the Corporation acquired Delaware County Abstract Company, Inc. and Beebe & Smith Title Insurance Company, Inc., which were merged into Indiana Title Insurance Company, a wholly-owned subsidiary of the Corporation. The Corporation issued approximately 108,919 shares of its common stock at a cost of $22.38 per share to complete the transaction. The title insurance operations were subsequently contributed to Indiana Title Insurance Company, LLC in which the Corporation has a 52.12% ownership interest. This acquisition was deemed to be an immaterial acquisition.

(Table dollars in thousands)

NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at September 30, 2002				
U.S. Treasury	$ 125			$ 125
Federal agencies......................	29,267	$ 829	$ (31)	30,065
State and municipal	143,817	7,378	(10)	151,185
Mortgage-backed securities	124,767	2,279	(91)	126,955
Other asset-backed securities.........	7,879	114		7,993
Corporate obligations.................	12,083	439		12,522
Marketable equity securities..........	7,153	69	(99)	7,123
Total available for sale	325,091	11,108	(231)	335,968
Held to maturity at September 30, 2002				
State and municipal...................	9,350	514	(5)	9,859
Mortgage-backed securities............	134			134
Total held to maturity	9,484	514	(5)	9,993
Total investment securities	$334,575	$ 11,622	$ (236)	$345,961

(Table dollars in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2001				
U.S. Treasury	$ 124			$ 124
Federal agencies	30,808	$ 767	$ (2)	31,573
State and municipal	74,776	1,644	(215)	76,205
Mortgage-backed securities	100,811	1,710	(1)	102,520
Other asset-backed securities	10,116	167		10,283
Corporate obligations	3,498	116		3,614
Marketable equity securities	7,472		(123)	7,349
Total available for sale	227,605	4,404	(341)	231,668
Held to maturity at December 31, 2001				
State and municipal	8,426	166	(58)	8,534
Mortgage-backed securities	228			228
Total held to maturity	8,654	166	(58)	8,762
Total investment securities	$236,259	$ 4,570	$ (399)	$240,430

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

NOTE 5. Loans and Allowance

	September 30, 2002	December 31, 2001
Loans:		
Commercial and industrial loans	$ 396,517	$ 301,962
Agricultural production financing and other loans to farmers	89,246	29,645
Real estate loans:		
Construction	130,066	58,316
Commercial and farmland	461,723	230,233
Residential	681,367	544,028
Individuals' loans for household and other personal expenditures	210,321	179,325
Other loans	24,798	16,077
	1,994,038	1,359,586
Allowance for loan losses	(22,147)	(15,141)
Total Loans	$ 1,971,891	$ 1,344,445

	Nine Months Ended September 30, 2002	2001
Allowance for loan losses:		
Balances, January 1	$ 15,141	$ 12,454
Allowance acquired in acquisition	6,902	2,085
Provision for losses	4,297	2,371
Recoveries on loans	959	464
Loans charged off	(5,152)	(2,467)
Balances, September 30	$ 22,147	$ 14,907

(Table dollars in thousands, except per share amounts)

NOTE 6. Net Income Per Share

	Three Months Ended September 30, 2002			Three Months Ended September 30, 2001		
	Income	Weighted-Average Shares	Per Share Amount	Income	Weighted-Average Shares	Per Share Amount
Basic net income per share: Net income available to common stockholders	$ 7,827	16,265,998	$ .49	$ 6,020	13,346,954	$ .45
Effect of dilutive stock options		138,152			97,264	
Diluted net income per share: Net income available to common stockholders and assumed conversions	$ 7,827	16,404,150	$ .48	$ 6,020	13,444,218	$ .44

Options to purchase 226,223 and 108,772 share for the three months ended September 30, 2002 and 2001 were not included in the earnings per share calculation because the exercise price exceded the average market price.

	Nine Months Ended September 30, 2002			Nine Months Ended September 30, 2001		
	Income	Weighted-Average Shares	Per Share Amount	Income	Weighted-Average Shares	Per Share Amount
Basic net income per share: Net income available to common stockholders	$ 21,240	15,340,528	$ 1.39	$ 16,700	12,922,043	$ 1.29
Effect of dilutive stock options		142,159			87,606	
Diluted net income per share: Net income available to common stockholders and assumed conversions	$ 21,240	15,482,687	$ 1.37	$ 16,700	13,009,649	$ 1.28

Options to purchase 127,944 and 113,741 share for the nine months ended September 30, 2002 and 2001 were not included in the earnings per share calculation because the exercise price exceded the average market price.

Note 7. Cumulative Trust Preferred Securities

On April 12, 2002, the Corporation and First Merchants Capital Trust I (the "Trust") entered into an Underwriting Agreement with Stifel, Nicolaus & Company, Incorporated and RBC Dain Rauscher Inc. for themselves and as co-representatives for several other underwriters (the "Underwriting Agreement"). On April 17, 2002 and pursuant to the Underwriting Agreement, the Trust issued 1,850,000 8.75% Cumulative Trust Preferred Securities (liquidation amount $25 per Preferred Security) (the "Preferred Securities") with an aggregate liquidation value of $46,250,000. On April 23, 2002 and pursuant to the Underwriting Agreement, the Trust issued an additional 277,500 Preferred Securities with an aggregate liquidation value of $6,937,500 to cover over-allotments. The proceeds from the sale of the Preferred Securities were invested by the Trust in the Corporation's 8.75% Junior Subordinated Debentures due June 30, 2032 (the "Debentures"). The proceeds from the issuance of the Debentures were used by the Corporation to fund a portion of the cash consideration payable to the shareholders of Lafayette Bancorporation in connection with the acquisition referenced in Note 3. The Preferred Securities are recorded as borrowings in the Corporation's consolidated September 30, 2002, balance sheet.

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

Forward-Looking Statements

The Corporation from time to time includes forward-looking statements in its oral and written communication. The Corporation may include forward-looking statements in filings with the Securities and Exchange Commission, such as this Form 10-Q, in other written materials and in oral statements made by senior management to analysts, investors, representatives of the media and others. The Corporation intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and the Corporation is including this statement for purposes of these safe harbor provisions. Forward-looking statements can often be identified by the use of words like "estimate," "project," "intend," "anticipate," "expect" and similar expressions. These forward-looking statements include:

* statements of the Corporation's goals, intentions and expectations;
* statements regarding the Corporation's business plan and growth strategies;
* statements regarding the asset quality of the Corporation's loan and investment portfolios; and
* estimates of the Corporation's risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors which could affect the actual outcome of future events:

* fluctuations in market rates of interest and loan and deposit pricing, which could negatively affect the Corporation's net interest margin, asset valuations and expense expectations;
* adverse changes in the Indiana economy, which might affect the Corporation's business prospects and could cause credit-related losses and expenses;
* adverse developments in the Corporation's loan and investment portfolios;
* competitive factors in the banking industry, such as the trend towards consolidation in the Corporation's market; and
* changes in the banking legislation or the regulatory requirements of federal and state agencies applicable to bank holding companies and banks like the Corporation's affiliate banks.

Because of these and other uncertainties, the Corporation's actual future results may be materially different from the results indicated by these forward-looking statements. In addition, the Corporation's past results of operations do not necessarily indicate its future results.

Critical Accounting Policy

Certain policies are important to the portrayal of the Corporation's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management believes that it's critical accounting policy includes determining the allowance for loan losses, ("ALL"). The Critical Accounting Policy should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Form 10-K annual report filed with the Securities and Exchange Commission.

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

Allowance for Loan Losses

The ALL is a significant estimate that can and does change based on management's assumptions about specific borrowers and applicable economic and environmental conditions, among other factors. The ALL is maintained to absorb losses inherent in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of chargeoffs, net of recoveries. The Corporation's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowances for identified problem loans, and the unallocated allowance.

The formula allowance is calculated by applying loss factors to outstanding loans and certain unused commitments, in each case based on the internal risk grade of such loans, pools of loans or commitments. Changes in risk grades of both performing and nonperforming loans affect the amount of the formula allowance. Loss factors are based on our historical loss experience and may be adjusted for significant factors that, in management's judgement, affect the collectibility of the portfolio as of the evaluation date.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance.

The unallocated allowance is based upon management's evaluation of various conditions, the effects of which are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific credits. The conditions evaluated in connection with the unallocated allowance may include existing general economic and business conditions affecting the Banks' key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, specific industry conditions within portfolio segments, recent loss experience in particular segments of the portfolio, duration of the current business cycle, bank regulatory examination results, and findings of an independent third party conducting reviews of the loan portfolio.

Results of Operations

Net income for the three months ended September 30, 2002, was $7,827,000, compared to $6,020,000 earned in the same period of 2001. Diluted earnings per share were $.48 an increase of $.04 over the $.44 reported for the third quarter 2001.

Net income for the nine months ended September 30, 2002, was $21,240,000, compared to $16,700,000 during the same period in 2001. Diluted earnings per share were $1.37, a 7.0% increase over $1.28 in 2001.

Annualized returns on average assets and average stockholders' equity for nine months ended September 30, 2002 were 1.22 percent and 12.45 percent, respectively, compared with 1.35 percent and 13.66 percent for the same period of 2001.

Capital

The Corporation's capital continues to exceed regulatory minimums and management believes that its capital levels continue to be a distinct advantage in the competitive environment in which the Corporation operates.

The Corporation's Tier I capital to average assets ratio was 8.7 percent at year-end 2001 and 7.91 percent at September 30, 2002. At September 30, 2002, the Corporation had a Tier I risk-based capital ratio of 10.28 percent and total risk-based capital ratio of 11.41 percent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 percent and a total risk-based capital ratio of 8.0 percent. Banks with Tier I risk-based capital ratios of 6.0 percent and total risk-based capital ratios of 10.0 percent are considered "well capitalized."

Asset Quality/Provision for Loan Losses

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. However, the Corporation's adequacy of the allowance for loan losses reflects increased non-performing loans, increased specific reserves and increased impaired loans, resulting in increased provision expense of $1,926,000 during the nine months ended September 30, 2002, as compared to the same period in 2001. $1,260,000 of this increase is a result of the acquisitions of Frances Slocum Bank and Lafayette Bank & Trust Company. Current non-performing and impaired loan balances indicate that some decline in loan asset quality has occured, which management believes is a result of current economic conditions. Total non-performing loans as a percent of total assets and total loans have increased from .82% to .96% and from 1.08% to 1.27% respectively, at September 30, 2002 as compared to the same period in 2001.

The following table summarizes the non-accrual, contractually past due 90 days or more other than non-accruing and restructured loans for the Corporation.

(Dollars in Thousands)	September 30, 2001	December 31, 2001
Non-accrual loans	$13,285	$ 6,327
Loans contractually past due 90 days Or more other than nonaccruing	9,786	4,828
Restructured loans	2,326	3,511
Total	$25,397	$14,666

At September 30, 2002, non-performing loans totaled $25,397,000, an increase of $10,731,000 from December 31, 2001. This increase was primarily due to the addition of $5,015,000 in non-performing loans related to the acquisition of Lafayette Bancorporation and the general downturn in the economy.

At September 30, 2002, impaired loans totaled $46,726,000. In addition, an allowance for losses was not deemed necessary for impaired loans totaling $22,158,000, but an allowance of $6,577,000 was recorded for the remaining balance of impaired loans of $24,568,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for the third quarter ended September 30, 2002 was $46,740,000. After consideration of an additional $14,800,000 of impaired loans as of September 30, 2002, due to the acquisition of Lafayette Bancorporation, the Corporation's impaired loans increased by $10,765,000 from year end 2001. This increase is attributable to management classifying several loans that had not been identified as being impaired at December 31, 2001. The increase in impaired loans is a contributing factor as to management increasing the loan losses provision, as discussed in the following paragraph.

At December 31, 2001, impaired loans totaled $21,161,000. In addition, an allowance for losses was not deemed necessary for impaired loans totaling $10,780,000, but an allowance of $3,251,000 was recorded for the remaining balance of impaired loans of $10,381,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for 2001 was $22,327,000.

At September 30, 2002, the allowance for loan losses increased by $7,006,000, to $22,147,000, from year end 2001. The increase was primarily due to the allowance acquired in the acquisition of Lafayette Bancorporation, which totaled $6,902,000. As a percent of loans, the allowance was 1.10 percent, which remains approximately the same as the 1.11 percent at year end 2001.

The nine month 2002 provision of $4,297,000 was up $1,926,000 from $2,371,000 for the same period in 2001. Net charge offs amounted to $4,193,000 during the period, an increase of $2,190,000 from $2,003,000 for the same period in 2001. The increased provision has helped maintain the allowance to total loans at an adequate level as compared to the same period of 2001.

	Nine Months Ended September 30, 2002	2001
	(Dollars in Thousands)	
Balance at beginning of period	$15,141	$12,454
Chargeoffs	(5,152)	(2,467)
Recoveries	959	464
Net chargeoffs	(4,193)	(2,003)
Provision for loan losses	4,297	2,371
Allowance acquired in acquisition	6,902	2,085
Balance at end of period	$22,147	$14,907
Ratio of net chargeoffs during the period to average loans outstanding during the period	.32%(1)	.21%(1)

(1) First nine months annualized.

Liquidity, Interest Sensitivity, and Disclosures About Market Risk

Asset/Liability Management has been an important factor in the Corporation's ability to record consistent earnings growth through periods of interest rate volatility and product deregulation. Management and the Board of Directors monitor the Corporation's liquidity and interest sensitivity positions at regular meetings to review how changes in interest rates may affect earnings. Decisions regarding investment and the pricing of loan and deposit products are made after analysis of reports designed to measure liquidity, rate sensitivity, the Corporation's exposure to changes in net interest income given various rate scenarios and the economic and competitive environments.

It is the objective of the Corporation to monitor and manage risk exposure to net interest income caused by changes in interest rates. It is the goal of the Corporation's Asset Liability function to provide optimum and stable net interest income. To accomplish this, management uses two asset liability tools. GAP/Interest Rate Sensitivity Reports and Net Interest Income Simulation Modeling are both constructed, presented, and monitored quarterly.

Management believes that the Corporation's liquidity and interest sensitivity position at September 30, 2002, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

The Corporation places its greatest credence in net interest income simulation modeling. The GAP/Interest Rate Sensitivity Report is believed by the Corporation's management to have two major shortfalls. The GAP/Interest Rate Sensitivity Report fails to precisely gauge how often an interest rate sensitive product reprices, nor is it able to measure the magnitude of potential future rate movements.

Net interest income simulation modeling, or earnings-at-risk, measures the sensitivity of net interest income to various interest rate movements. The Corporation's asset liability process monitors simulated net interest income under three separate interest rate scenarios; base, rising and falling. Estimated net interest income for each scenario is calculated over a 12-month horizon. The immediate and parallel changes to the base case scenario used in the model are presented below. The interest rate scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings of the Corporation.

The base scenario is highly dependent on numerous assumptions embedded in the model, including assumptions related to future interest rates. While the base sensitivity analysis incorporates management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. For mortgage-related assets, the base simulation model captures the expected prepayment behavior under changing interest rate environments. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity products, e.g., savings, money market, NOW and demand deposits reflect management's best estimate of expected future behavior.

The comparative rising and falling scenarios for the period ended September 30, 2003 assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case senario. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management in the base simulation for the period ended September 30, 2003 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(200)Basis Points
Federal Funds	200	(75)
One-Year T-Bill	200	(42)
Two-Year T-Bill	200	(68)
Interest Checking	100	-
MMIA Savings	100	(26)
Money Market Index	100	(40)
CD's	200	(145)
FHLB Advances	200	(182)

Results for the base, rising and falling interest rate scenarios are listed below, based upon the Corporation's rate sensitive assets at September 30, 2002. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	BASE	RISING	FALLING
Net Interest Income (dollars in thousands)	$ 96,321	$ 94,382	$ 92,313
Variance from base		$ (1,939)	$ (4,008)
Percent of change from base		(2.01)%	(4.16)%

The comparative rising and falling scenarios for the year ended December 31, 2002 assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case senario. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management in the base simulation for the year ended December 31, 2002 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(150)Basis Points
Federal Funds	200	(100)
One-Year T-Bill	200	(100)
Two-Year T-Bill	200	(100)
Interest Checking	100	(25)
MMIA Savings	75	(25)
Money Market Index	200	(100)
CD's	170	(130)
FHLB Advances	200	(100)

Results for the base, rising and falling interest rate scenarios are listed below, based upon the Corporation's rate sensitive assets at December 31, 2001. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	BASE	RISING	FALLING
Net Interest Income (dollars in thousands)	$ 74,029	$ 74,356	$ 71,540
Variance from base		$ 327	$ (2,489)
Percent of change from base		.44%	(3.36)%

Earning Assets

The following table presents the earning asset mix as of September 30, 2002, and December 31, 2001. At September 30, 2002, earning assets increased by $736.8 million from year end 2001. This increase was primarily due to the addition of $712,000 million in earnings assets related to the acquisition of Lafayette Bancorporation.

Excluding increases due to the acquisition of Lafayette Bancorporation, loans grew by over $35 million from December 31, 2001 to September 30, 2002. Commercial and farmland related real estate loans increased $47 million. Residential real estate loans decreased by $35 million, while commercial and industrial loans increased by more than $38 million.

EARNING ASSETS (Dollars in Millions)	September 30, 2001	December 31, 2001
Federal funds sold and interest-bearing deposits	$ 19.0	$ 38.2
Investment securities available for sale	336.0	231.7
Investment securities held to maturity	9.5	8.7
Mortgage loans held for sale	14.1	.3
Loans	1,994.0	1,359.6
Federal Reserve and Federal Home Loan Bank stock	11.1	8.4
Total	$ 2,383.7	$ 1,646.9

Deposits and Borrowings

The following table presents the level of deposits and borrowed funds (Federal funds purchased (FFP), repurchase agreements, U.S. Treasury demand notes, Federal Home Loan Bank advances, trust preferred securities and other borrowed funds)at September 30, 2002 and December 31, 2001.

(Dollars in Millions)	September 30, 2002	December 31, 2001
Deposits	$ 2,019.7	$ 1,421.3
Securities sold under repurchase agreements......	71.1	45.6
FFP and U.S. Treasury demand notes...............	11.9	16.8
Federal Home Loan Bank advances	173.4	103.5
Trust preferred securities.......................	53.2	
Other borrowed funds	19.3	8.5

The Corporation has continued to leverage its capital position with Federal Home Loan Bank advances, as well as, repurchase agreements which are pledged against acquired investment securities as collateral for the borrowings. Trust preferred securities are classified as Tier I Capital when computing risk based capital ratios due to the long-term nature of the investment. The interest rate risk is included as part of the Corporation's interest simulation discussed in Management's Discussion and Analysis under the heading Liquidity, Interest Sensitivity, and Disclosures about Market Risk.

Net Interest Income

Net Interest Income is the primary source of the Corporation's earnings. It is a function of net interest margin and the level of average earning assets. The table below presents the Corporation's asset yields, interest expense, and net interest income as a percent of average earning assets for the nine months ended September 30, 2002 and 2001.

Annualized net interest income (FTE) for the nine months ended September 30, 2002 increased by $28,459,000, or 43.5 percent over the same period in 2001, due to an increase in average earning assets of over $736 million. For the same period, interest income and interest expense, as a percent of average earning assets, decreased 106 basis points and 127 basis points, respectively.

(Dollars in Thousands)	Interest Income (FTE) as a Percent of Average Earning Assets	Interest Expense as a Percent of Average Earning Assets	Net Interest Income (FTE) as a Percent of Average Earning Assets	Average Earning Assets	Annualized Net Interest Income On a Fully Taxable Equivalent Basis
For the three months Ended September 30,					
2002	6.92%	2.49%	4.43%	$2,379,092	$105,536
2001	7.79%	3.46%	4.33%	$1,652,318	$ 71,526

(Dollars in Thousands)	Interest Income (FTE) as a Percent of Average Earning Assets	Interest Expense as a Percent of Average Earning Assets	Net Interest Income (FTE) as a Percent of Average Earning Assets	Average Earning Assets	Annualized Net Interest Income On a Fully Taxable Equivalent Basis
For the nine months Ended September30,					
2002	6.94%	2.50%	4.44%	$2,112,777	$93,867
2001	8.00%	3.77%	4.23%	$1,545,820	$65,408

Average earning assets include the average balance of securities classified as available for sale, computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.

Other Income

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

Other income in the third quarter of 2002 exceeded the same quarter in the prior year by $3,015,000, or 65.1 percent.

Four major areas account for most of the increase:

1. Service charges on deposit accounts increased $1,122,000 or 74.6 percent due to increased number of accounts, price adjustments and approximately $1,045,000 of additional service charge income related to the April 1, 2002 acquisition of Lafayette Bank and Trust Company ("Lafayette").

2. Revenues from fiduciary activities increased $303,000 or 22.5 percent due primarily to additional fees received related to the acquisition of Lafayette.

3. Net realized gains on sales of available-for-sale securities totaled $162,000 in the third quarter of 2002, while net realized losses on sales of availiable-for-sale securities totaled $(167,000) for the same period in 2001.

4. The Corporation sold its Purchase Money Order ("PMO) business in the third quarter of 2002, resulting in a net gain on sale of $514,000.

Other income in the first nine months of 2002 exceeded the same period in the prior year by $6,219,000 or 45.6 percent.

Five major areas account for most of the increase:

1. Service charges on deposit accounts increased $2,529,000 or 61.6 percent due to increased number of accounts, price adjustments and approximately $2,050,000 of additional service charge income related to the April 1, 2002 acquisition of Lafayette.

2. Net realized gains on sales of available-for-sale securities totaled $570,000 in the first nine months of 2002, while net realized losses on sales of availiable-for-sale securities totaled $(167,000) during the same period in 2001.

3. Revenues from fidicuiary activities increased $654,000 or 15.9 percent due primarily to additional fees received related to the acquisition of Lafayette.

4. The Corporation sold its PMO business in the first nine months of 2002, resulting in a net gain on sale of $514,000.

5. Abstract, title insurance and other related income increased $628,000 in the first nine months of 2002, related to the January 1, 2002 acquisition of Delaware County Abstract Company, Inc. and Beebe & Smith Title Insurance Company, Inc.

Other Expenses

Total other expenses represent non-interest operating expenses of the Corporation. Total other expense during the third quarter of 2002 exceeded the same period of the prior year by $7,207,000, or 60.2 percent.

Four major areas account for most of the increase:

1. Salaries and benefit expense grew $4,156,000 or 64.4 percent, due to normal salary increases, staff additions and additional salary cost related to the April 1, 2002 acquisition of Lafayette.

2. Core deposit intangible amortization increased by $304,000, due to utilization of the purchase method of accounting for the Corporation related to the April 1, 2002 acquisition of Lafayette.

3. Equipment expense increased by $739,000 or 64.8%, primarily related to the April 1, 2002 acquisition of Lafayette.

4. Telephone expenses increased by $507,000 or 192.0%, primarily due to additional telephone costs related to the acquisition of Lafayette. In addition, increased service contract charges related to greater usage of telephone lines, contributed to this increase.

Total other expenses during the first nine months in 2002 exceeded the same period of the prior year by $18,170,000, or 55.1 percent.

Five major areas account for most of the increase:

1. Salaries and benefit expense grew $10,207,000, or 56.4 percent, due to normal salary increases, staff additions and additional salary cost of $6,403,000 related to the April 1, 2002 acquisition of Lafayette.

2. Telephone expenses increased by $1,174,000 or 146.9%, primarily due to additional telephone costs related to the acquisition of Lafayette. In addition, increased service contract charges related to greater usage of telephone lines, contributed to this increase.

3. Equipment expenses increased by $1,566,000 or 47.7%, primarily related to the April 1, 2002 acquisition of Lafayette.

4. Core deposit intangible amortization increased by $656,000, due to utilization of the purchase method of accounting for the Corporation related to the April 1, 2002 acquisition of Lafayette.

5. Data processing fees increased by $759,000, or 38.6 percent, primarily due to increases in processing expenses related to greater usage of debit/ATM cards by customers and increases in loans originated and processed during the first nine months in 2002.

Income Taxes

Income tax expense, for the nine months ended September 30, 2002, increased by $2,149,000 over the same period in 2001. The effective tax rate was 34.1 and 35.0 percent for the 2002 and 2001 periods. The .9 percent decrease is primarily a result of the Lafayette Bank and Trust Company tax strategy benefits obtained as a result of its April 1, 2002 acquisition by the Corporation.

Other

The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, including the Corporation, and that address is (http://www.sec.gov).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required under this item is included as part of Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading Liquidity, Interest Sensitivity, and Disclosures About Market Risk.

Item 4. Disclosure Controls and Procedures

Within the 90 days prior to the filing date of this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Corporation reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out this evaluation.

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

a. None

b. None

c. On September 6, 2002, the Corporation issued a total of 36,276 unregistered shares of its common stock pursuant to a Merger Agreement dated September 6, 2002, between the Corporation and SIS, as previously discussed in Note 3 to the notes to consolidated condensed financial statements. The Corporation issued the unregistered shares to the sole shareholder of SIS, at a value of $27.47 per share, in exchange for all the common stock of SIS. The issuance by the Corporation of its shares of common stock were not registered under the Securities Act of 1933, as amended ("Securities Act"). The shares were issued pursuant to the exemption contemplated in Section 4(2) of the Securities Act, for transactions not involving a public offering.

   On July 1, 2002, the Corporation issued nonqualified stock options to acquire 7,718 shares of common stock of the Corporation to directors of its founding subsidiary bank, First Merchants Bank, National Association. The stock option exercise price was $28.28, and no consideration was paid by the directors for such stock options. The options, which have a ten year life, become 100 percent vested after six months from the date of grant and are fully exercisable when vested.

   The stock options were issued without registration under the Securities Act in reliance on an exemption under Section 3 (a) (11) of the Securities Act and Rule 147 promulgated thereunder. As provided under Rule 147, both the Corporation and directors are deemed to be a resident of the State of Indiana. In addition, the Corporation is deemed to be doing business in the State of Indiana, and the Rule 147 resale limitations and precautions against interstate offers and sales are being strictly adhered to.

d. None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

Exhibit No.:	Description of Exhibit:	Form 10-Q Page No.:
2	Agreement of Reorganization and Merger between First Merchants Corporation and CNBC Bancorp	*
10a	First Merchants Corporation Change of Control Agreement with Robert R. Connors dated August 26, 2002	35
10b	First Merchants Corporation Change of Control Agreement with James L. Thrash dated June 18, 2002	41

* Incorporated by reference to Registrant's Current Report on Form 8-K filed August 28, 2002.

Item 6. Exhibits and Reports on Form 8-K (continued)

b. Reports on Form 8-K

A report on Form 8-K, dated August 13, 2002, was filed on August 16, 2002 under report item number 5, concerning the Corporation's declaration of a five percent (5%) stock dividend on its shares of common stock. The dividend was payable to shareholders of record on August 30, 2002. The date of delivery of shares to be issued pursuant to the stock dividend was September 13, 2002.

Under report item number 7, the following exhibit was included in this Form 8-K.

(c) Exhibit.

(99) Press release dated August 16, 2002

A report on Form 8-K dated August 28, 2002, was filed on August 28, 2002, under report item number 5, concerning the Corporation and CNBC Bancorp ("CNBC") jointly announcing the signing of a definitive agreement pursuant to which CNBC will be merged with and into the Corporation. The Agreement of Reorganization and Merger between the Corporation and CNBC dated August 28, 2002, was filed as an exhibit to this Form 8-K.

FIRST MERCHANTS CORPORATION

FORM 10-Q

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

First Merchants Corporation
(Registrant)

Date 11/14/02	by /s/ Michael L. Cox Michael L. Cox President and Chief Executive Officer
Date 11/14/02	by /s/ Mark K. Hardwick Mark K. Hardwick Senior Vice President and Chief Financial Officer (Principal Financial and Chief Accounting Officer)

FIRST MERCHANTS CORPORATION

FORM 10-Q
CERTIFICATIONS PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Michael L. Cox, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Merchants Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

by: /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

CERTIFICATION
- -------------

I, Mark K. Hardwick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Merchants Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

by: /s/ Mark K. Hardwick

Mark K. Hardwick
Senior Vice President and
Chief Financial Officer
(Principal Financial and Chief
Accounting Officer)

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Michael L. Cox, President & Chief Executive Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date 11/14/02 by /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

In connection with the quarterly report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Mark K. Hardwick, Senior Vice President and Chief Financial Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date 11/14/02 by /s/ Mark K. Hardwick

Mark K. Hardwick
Senior Vice President and
Chief Financial Officer
(Principal Financial and Chief
Accounting Officer)

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX TO EXHIBITS

INDEX TO EXHIBITS

(a)3. Exhibits:

Exhibit No.:	Description of Exhibit:	Form 10-Q Page No.:
2	Agreement of Reorganization and Merger between First Merchants Corporation and CNBC Bancorp	*
10a	First Merchants Corporation Change of Control Agreement with Robert R. Connors dated August 26, 2002	35
10b	First Merchants Corporation Change of Control Agreement with James L. Thrash dated June 18, 2002	41

* Incorporated by reference to Registrant's Current Report on Form 8-K filed August 28, 2002.

FIRST MERCHANTS CORPORATION

Exhibit 10a

CHANGE OF CONTROL AGREEMENT

This Agreement is made and entered into as of August 14, 2002, by and between First Merchants Corporation, an Indiana corporation (hereinafter referred to as "Corporation"), with its principal office located at 200 East Jackson Street, Muncie, Indiana, and Robert R. Connors (hereinafter referred to as 'Executive'), of Indianapolis, Indiana.

WHEREAS, the Corporation considers the continuance of proficient and experienced management to be essential to protecting and enhancing the best interests of the Corporation and its shareholders; and

WHEREAS, the Corporation desires to assure the continued services of the Executive on behalf of the Corporation; and

WHEREAS, the Corporation recognizes that if faced with a proposal for a Change of Control, as hereinafter defined, the 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 Corporation and its shareholders; and it is necessary for the 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 Corporation desires to provide fair and reasonable benefits to the Executive on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings herein contained and the continued employment of the Executive by the Corporation as its Senior Vice President of Operations and Technology, the Corporation and the Executive, each intending to be legally bound, covenant and agree as follows:

1. Term of Agreement.

This Agreement shall continue in effect through December 31, 2003; provided, however, that commencing on December 31, 2003 and each December 31 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than October 31, 2003 or October 31 immediately preceding any December 31 thereafter, the Corporation shall have given the Executive notice that it does not wish to extend this Agreement; and provided further, that if a Change of Control of the 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 following definitions shall apply:

A. Cause: "Cause" shall mean:

(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:

(1) any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 ["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 representing twenty-five percent (25%) or more of the combined voting power of the Corporation=s then outstanding securities;

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

(3) the stockholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation, other than (a) a merger or consolidation which would result in the voting securities of the 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 fifty percent (50%) of the combined voting power of the voting securities of the Corporation or such surviving entity outstanding immediately after such a merger or consolidation, or (b) a merger or consolidation effected to implement a recapitalization of the Corporation (or similar transaction) in which no person acquires fifty percent (50%) or more of the combined voting power of the Corporation's then outstanding securities; or

(4) the stockholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the 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 Corporation, and a determination of full disability by the Corporation; 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 the Executive to have been unable to perform his duties with the Corporation on a full time basis for one hundred eighty (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 the Executive's employment under the provisions so indicated.

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

3. Termination.

(A) General. If any of the events described in Section 2 constituting a Change in Control of the Corporation shall have occurred, the Executive shall be entitled to the benefits described 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 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 Corporation shall pay him his salary through the Date of Termination at the rate in effect on the date of the Notice of Termination, and the 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 Corporation's then existing policies on death or Disability, 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 Corporation's normal retirement policy generally applicable to its salaried employees at the time of the Change of Control, and the 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 of Control of the 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 Corporation that the Executive held immediately prior to the Change of Control of the 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 of Control;

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

(3) the Corporation requires the Executive to be relocated anywhere other than its offices in Muncie, Indiana;

(4) the taking of any action to deprive the Executive of any material fringe benefit enjoyed by him at the time of the Change of Control, or the failure to provide him with the number of paid vacation days to which he is entitled on the basis of years of service with the Corporation and in accordance with the Corporation's normal vacation policy in effect at the time of the Change of Control;

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

(6) the failure of the 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 of Control, if his employment by the Corporation shall be terminated by the Executive on account of Constructive Termination or by the 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 in effect at the time such payments are due;

(B) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, no later than the fifth day following the Date of Termination, the Corporation shall pay to the Executive a lump sum severance payment, in cash, equal to two (2.00) times the sum of (a) the Executive's annual base salary rate as in effect on the date of the Notice of Termination, and (b) the largest bonus received by the Executive during the two (2) years immediately preceding the Date of Termination under the Corporation's Management Incentive Plan covering the Executive;

(C) During the period beginning with the Executive's Date of Termination and continuing until the earlier of (a) the second anniversary of such Date of Termination, or (b) Executive's sixty-fifth (65th) birthday, the Corporation shall arrange to provide the Executive with life, disability, accident and health insurance benefits substantially similar to those which the Executive was receiving immediately prior to the Notice of Termination and shall pay the same percentage of the cost of such benefits as the Corporation was paying on the Executive's behalf on the date of such Notice;

(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 the Executive under any Corporation stock option plan (which Options shall be cancelled upon the making of the payment referred to below), the 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 share price for Corporation Shares actually paid in connection with any Change of Control of the Corporation, over the per share exercise price of each Option held by the Executive (whether or not then fully exercisable), times (b) the number of Corporation Shares covered by each such Option;

(E) If the payments or benefits, if any, received or to be received by the Executive (whether under this Agreement or under any other plan, arrangement, or agreement between the Executive and the Corporation), in connection with termination or Constructive Termination of the Executive's employment following a Change of Control, constitute an "excess parachute payment" within the meaning of '280G of the Internal Revenue Code ("Code"), the Corporation shall pay to the Executive, no later than the fifth day following the Date of Termination, an additional amount (as determined by the Corporation's independent public accountants) equal to the excise tax, if any, imposed on the "excess parachute payment" under '4999 of the Code; provided, however, if the amount of such excise tax is finally determined to be more or less than the amount paid to the Executive hereunder, the Corporation (or the Executive if the finally determined amount is less than the original amount paid) shall pay the difference between the amount originally paid and the finally determined amount to the other party no later than the fifth day following the date such final determination is made;

(F) The Corporation shall pay to the 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;

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

5. Successors; Binding Agreement.

(A) The Corporation shall 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 Corporation to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if no such succession had taken place. Failure of the 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 the Executive to compensation from the Corporation in the same amount and on the same terms to which the Executive would be entitled hereunder if the Executive terminates his employment on account of Constructive Termination following a Change of Control of the 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, "the Corporation" shall mean the Corporation and any successor to its 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 his estate.

6. 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 the Executive and such officer as may be specifically designated by the Corporation. 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 a section of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such section. 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.

7. 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.

8. Counterparts.

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

9. 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 (3) 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.

10. 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 Corporation and the Bank have caused this Agreement to be executed by their duly authorized officers, and the Executive has hereunder subscribed his name, as of the day and year first above written.

"CORPORATION"	"EXECUTIVE"
FIRST MERCHANTS CORPORATION	
By ______________________________	By ______________________________
Stefan S. Anderson, Chairman of the Board	Robert R. Connors

Exhibit 10b

CHANGE OF CONTROL AGREEMENT

This Agreement is made and entered into as of June 18, 2002, by and between First Merchants Corporation, an Indiana corporation (hereinafter referred to as "Corporation"), and First Merchants Bank, National Association (hereinafter referred to as "Bank"), and wholly-owned subsidiary of the Corporation, both with their principal offices located at 200 East Jackson Street, Muncie, Indiana, and James L. Thrash (hereinafter referred to as 'Executive'), of Muncie, Indiana.

WHEREAS, the Corporation and the Bank considers the continuance of proficient and experienced management to be essential to protecting and enhancing the best interests of the Corporation, the Bank, and the Corporation's shareholders; and

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

WHEREAS, the Corporation and the Bank recognizes that if faced with a proposal for a Change of Control, as hereinafter defined, the 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 Corporation, the Bank, and the Corporation's shareholders: and it is necessary for the 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 Corporation and the Bank desires to provide fair and reasonable benefits to the Executive on the terms and subject to the conditions set forth in this Agreement.

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

1. Term of Agreement.

This Agreement shall continue in effect through December 31, 2003; provided, however, that commencing on December 31, 2003 and each December 31 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than October 31, 2003 or October 31 immediately preceding any December 31 thereafter, the Corporation or the Bank shall have given the Executive notice that it does not wish to extend this Agreement; and provided further, that if a Change of Control of the Corporation or the Bank, 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 following definitions shall apply:

A. Cause: "Cause" shall mean:

(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:

(1) any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 ["Exchange Act"]), other than the Corporation or the Bank, is or becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly of securities of the Corporation representing twenty-five percent (25%) or more of the combined voting power of the Corporation's or the Bank's then outstanding securities;

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

(3) the stockholders of the Corporation or the Bank approve a merger or consolidation of the Corporation or the Bank with any other corporation, other than (a) a merger or consolidation which would result in the voting securities of the Corporation or the Bank outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Corporation's or the Bank's then outstanding securities; or

(4) the stockholders of the Corporation approve a plan of complete liquidation of the Corporation or the Bank or an agreement for the sale or disposition by the Corporation or the Bank of all or substantially all of the Corporation's or the Bank'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 Corporation or the Bank, and a determination of full disability by the Corporation or the Bank; 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 the Executive to have been unable to perform his duties with the Corporation and/or the Bank on a full time basis for one hundred eighty (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 the Executive's employment under the provisions so indicated.

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

3. Termination.

(A) General. If any of the events described in Section 2 constituting a Change in Control of the Corporation or the Bank shall have occurred, the Executive shall be entitled to the benefits described 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 Corporation or the Bank 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 Corporation and/or the Bank shall pay him his salary through the Date of Termination at the rate in effect on the date of the Notice of Termination, and the Corporation and the Bank 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 Corporation's and the Bank's then existing policies on death or Disability, and the Corporation and the Bank 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 Corporation's and the Bank's normal retirement policy generally applicable to its salaried employees at the time of the Change of Control, and the Corporation and the Bank 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 of Control of the Corporation or the Bank, 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 Corporation or the Bank that the Executive held immediately prior to the Change of Control of the Corporation or the Bank, 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 of Control;

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

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

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

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

(6) the failure of the Corporation or the Bank 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 of Control, if his employment by the Corporation or the Bank shall be terminated by the Executive on account of Constructive Termination or the Corporation or the Bank 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 or the Bank 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 or the Bank in effect at the time such payments are due;

(B) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, no later than the fifth day following the Date of Termination, the Corporation or the Bank shall pay to the Executive a lump sum severance payment, in cash, equal to two (2.00) times the sum of (a) the Executive's annual base salary rate as in effect on the date of the Notice of Termination, and (b) the largest bonus received by the Executive during the two (2) years immediately preceding the Date of Termination under the Corporation's Management Incentive Plan covering the Executive;

(C) During the period beginning with the Executive's Date of Termination and continuing until the earlier of (a) the second anniversary of such Date of Termination, or (b) Executive's sixty-fifth (65th) birthday, the Corporation or the Bank shall arrange to provide the Executive with life, disability, accident and health insurance benefits substantially similar to those which the Executive was receiving immediately prior to the Notice of Termination and shall pay the same percentage of the cost of such benefits as the Corporation or the Bank was paying on the Executive's behalf on the date of such Notice;

(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 the Executive under any Corporation stock option plan (which Options shall be cancelled upon the making of the payment referred to below), the 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 share price for Corporation Shares actually paid in connection with any Change of Control of the Corporation, over the per share exercise price of each Option held by the Executive (whether or not then fully exercisable), times (b) the number of Corporation Shares covered by each such Option;

(E) If the payments or benefits, if any, received or to be received by the Executive (whether under this Agreement or under any other plan, arrangement, or agreement between the Executive and the Corporation or the Bank), in connection with termination or Constructive Termination of the Executive's employment following a Change of Control, constitute an "excess parachute payment" within the meaning of '280G of the Internal Revenue Code ("Code"), the Corporation or the Bank shall pay to the Executive, no later than the fifth day following the Date of Termination, an additional amount (as determined by the Corporation's independent public accountants) equal to the excise tax, if any, imposed on the "excess parachute payment" under '4999 of the Code; provided, however, if the amount of such excise tax is finally determined to be more or less than the amount paid to the Executive hereunder, the Corporation or the Bank (or the Executive if the finally determined amount is less than the original amount paid) shall pay the difference between the amount originally paid and the finally determined amount to the other party no later than the fifth day following the date such final determination is made;

(F) The Corporation or the Bank shall pay to the 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;

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

5. Successors; Binding Agreement.

(A) The Corporation or the Bank shall 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 Corporation or the Bank to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation or the Bank would be required to perform it if no such succession had taken place. Failure of the Corporation or the Bank to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Corporation or the Bank in the same amount and on the same terms to which the Executive would be entitled hereunder if the Executive terminates his employment on account of Constructive Termination following a Change of Control of the Corporation or the Bank, 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, "the Corporation or the Bank" shall mean the Corporation or the Bank and any successor to its 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 his estate.

6. Guarantee by Corporation and Bank.

In consideration of the value of the continued employment of the Executive by the Corporation or the Bank, and the benefits derived by the Corporation and the Bank from the Executives employment by the Corporation or the Bank, 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 the Executive and such officer as may be specifically designated by the Corporation. 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 a section of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such section. 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 and the Bank 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 shall 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 (3) 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 Corporation and the Bank have caused this Agreement to be executed by their duly authorized officers, and the Executive has hereunder subscribed his name, this _____ day of ___________, 2002.

"CORPORATION"	"EXECUTIVE"
FIRST MERCHANTS CORPORATION	
By _______________________________	By _______________________________
Stefan S. Anderson, Chairman of the Board	James L. Thrash
"BANK"	"EXECUTIVE"
FIRST MERCHANTS BANK, NATIONAL ASSOCIATION	
By _______________________________	
Stefan S. Anderson, Chairman of the Board	