FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1997

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 of 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

As of May 5, 1997, there were outstanding 6,612,490 common shares, without par value, of the registrant.

The exhibit index appears on page 19.

This report including the cover page contains a total of 38 pages.

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX

FIRST MERCHANTS CORPORATION

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

	March 31, 1997	December 31, 1996
ASSETS:		
Cash and due from banks	$ 35,020	$ 33,882
Federal funds sold	1,560	1,150
Cash and cash equivalents	36,580	35,032
Interest-bearing deposits	371	290
Investment securities available for sale	230,973	228,379
Investment securities held to maturity	42,442	47,227
Mortgage Loans held for sale	144	284
Loans	651,782	631,416
Less: Allowance for loan losses	(6,883)	(6,622)
Net loans	644,899	624,794
Premises and equipment	15,284	15,303
Federal Reserve and Federal Home Loan Bank stock	3,090	3,090
Interest receivable	8,289	8,643
Core deposit intangibles and goodwill	1,681	1,714
Others assets	4,078	3,237
Total assets	$ 987,831	$ 967,993
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 95,886	$ 110,175
Interest-bearing	686,007	684,276
Total deposits	781,893	794,451
Short-term borrowings	71,626	45,037
Federal Home Loan Bank advances	12,450	9,150
Interest payable	3,476	3,376
Other liabilities	4,596	3,292
Total liabilities	874,041	855,306
STOCKHOLDERS' EQUITY:		
Preferred stock, no-par value: Authorized and unissued -- 500,000 shares		
Common stock, $.125 stated value: Authorized --- 20,000,000 shares Issued and outstanding -- 6,610,357 and 6,603,319 shares	827	825
Additional paid-in capital	23,155	22,968
Retained earnings	89,822	87,978
Net unrealized gain (loss) on securities available for sale	(14)	916
Total stockholders' equity	113,790	112,687
Total liabilities and stockholders' equity	$ 987,831	$ 967,993

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31	
	1997	1996
Interest Income:		
Loans receivable		
Taxable	$ 13,793	$ 12,480
Tax exempt	29	18
Investment securities:		
Taxable	2,949	3,290
Tax exempt	1,039	911
Federal funds sold	27	270
Deposits with financial institutions	3	5
Federal Reserve and Federal Home Loan Bank stock	44	36
Total interest income	17,884	17,010
Interest expense:		
Deposits	7,502	7,365
Short-term borrowings	708	547
Federal Home Loan Bank advances	133	125
Total interest expense	8,343	8,037
Net Interest Income	9,541	8,973
Provision for loan losses	287	280
Net Interest Income After Provision For Loan Losses	9,254	8,693
Other Income:		
Net realized gains on sales of available-for-sale securities	10	17
Other income	2,122	1,955
Total other income	2,132	1,972
Total other expenses	6,206	5,822
Income before income tax	5,180	4,843
Income tax expense	1,751	1,656
Net Income	$ 3,429	$ 3,187
Per share:		
Net income	$ .52	$ .49
Dividends (1)	.24	.20
Weighted average shares outstanding	6,605,012	6,564,529

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

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	1997	1996
Balances, January 1	$112,687	$104,967
Net income	3,429	3,187
Cash dividends	(1,585)	(1,122)
Net change in unrealized loss on securities available for sale	(930)	(1,338)
Stock issued under dividend reinvestment and stock purchase plan	175	124
Stock options exercised	14	34
Balances, March 31	$113,790	$105,852

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31	
	1997	1996
Cash Flows From Operating Activities:		
Net income	$ 3,429	$ 3,187
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	287	280
Depreciation and amortization	443	394
Securities amortization, net	132	2
Securities losses (gains), net	10	17
Mortgage loans originated for sale	(700)	(108)
Proceeds from sales of mortgage loans	856	853
Change in interest receivable	438	741
Change in interest payable	100	21
Other adjustments	1,338	1,127
Net cash provided by operating activities	6,333	6,514
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	(81)	(101)
Purchases of		
Securities available for sale	(20,939)	(60,357)
Securities held to maturity	(1,151)	(16,526)
Proceeds from maturities of		
Securities available for sale	15,153	51,818
Securities held to maturity	6,675	21,657
Proceeds from sales of		
Securities available for sale		970
Net change in loans	(19,961)	(12,704)
Purchases of premises and equipment	(424)	(278)
Other investing activities	8	(58)
Net cash used by investing activities	(20,720)	(15,579)

(continued)

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31	
	1997	1996
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	(23,014)	(38,911)
Certificates of deposit and other time deposits	10,456	8,433
Short-term borrowings	26,589	2,947
Federal Home Loan Bank Advances	3,300	5,000
Repayment of Federal Home Loan Bank Advances		(5,000)
Cash dividends	(1,585)	(1,122)
Stock issued under dividend reinvestment and stock purchase plan	175	124
Stock options exercised	14	34
Net cash used by financing activities	15,935	(28,495)
Net Change in Cash and Cash Equivalents	1,548	(37,560)
Cash and Cash Equivalents, January 1	35,032	77,874
Cash and Cash Equivalents, March 31	$ 36,580	$ 40,314

See notes to consolidated condensed financial statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1. General

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

NOTE 2. Change in Methods of Accounting

Statement of Financial Accounting Standards ("SFAS") No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, was adopted by the Corporation on January 1, 1997. SFAS No. 125 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are considered secured borrowings. A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets only if all specific conditions are met. This Statement provides detailed measurement standards for assets and liabilities included in these transactions. The adoption of this Statement had no material impact on the Corporation's financial condition and results of operations.

(Table dollar amounts in thousands, except per share amounts)

NOTE 3. Business Combinations

On August 1, 1996, the Corporation issued 942,685 shares of its common stock in exchange for all of the outstanding shares of Union National Bancorp, Liberty, Indiana. On October 2, 1996, the Corporation issued 565,705 shares of its common stock in exchange for all of the outstanding shares of Randolph County Bancorp, Winchester, Indiana. These transactions were accounted for under the pooling-of-interests method of accounting. The financial information contained herein reflects the mergers and reports the financial condition and results of operations as though the Corporation had been combined as of January 1, 1996. Separate operating results of Union National Bancorp and Randolph County Bancorp for the period prior to the merger were as follows:

	Three Months Ended March 31 1996
Net Interest Income:	
First Merchants Corporation	$ 7,024
Union National Bancorp	1,241
Randolph County Bancorp	708
Combined	$ 8,973
Net Income:	
First Merchants Corporation	$ 2,579
Union National Bancorp	371
Randolph County Bancorp	237
Combined	$ 3,187
Net Income Per Share:	
First Merchants Corporation	$ .39
Union National Bancorp	.06
Randolph County Bancorp	.04
Combined	$ .49

(Table dollar amounts in thousands)

NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at March 31, 1997:				
U.S. Treasury	$ 20,562	$ 26	$ 108	$ 20,480
Federal agencies	81,707	271	594	81,384
State and municipal	57,765	883	320	58,328
Mortgage-backed securities	38,930	280	395	38,815
Other asset-backed securities	620	5		625
Corporate obligations	31,000	75	242	30,833
Marketable equity security	508			508
Total available for sale	231,092	1,540	1,659	230,973
Held to maturity at March 31, 1997:				
U.S. Treasury	249		11	238
Federal agencies	3,424	10	15	3,419
State and municipal	32,868	173	107	32,934
Mortgage-backed securities	3,083	1	14	3,070
Other asset-backed securities	1,820	3	101	1,722
Corporate obligations	998	1		999
Total held to maturity	42,442	188	248	42,382
Total investment securities	$ 273,534	$ 1,728	$ 1,907	$273,355

(Table dollar amounts in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 1996:				
U.S. Treasury	$ 21,570	$ 92	$ 46	$ 21,616
Federal agencies	79,130	540	180	79,490
State and municipal	52,026	1,173	106	53,093
Mortgage-backed securities	41,441	297	275	41,463
Other asset-backed securities	709			709
Corporate obligations	31,470	156	128	31,498
Marketable equity securities	510			510
Total available for sale	226,856	2,258	735	228,379
Held to maturity at December 31, 1996:				
U.S. Treasury	249		7	242
Federal agencies	5,729	23	5	5,747
State and municipal	36,405	381	21	36,765
Mortgage-backed securities	2,730		13	2,717
Other asset-backed securities	2,114	17	108	2,023
Total held to maturity	47,227	421	154	47,494
Total investment securities	$ 274,083	$ 2,679	$ 889	$ 275,873

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

NOTE 5. Loans and Allowance

	March 31, 1997	December 31, 1996
Loans:		
Commercial and industrial loans	$ 135,195	$ 132,134
Bankers' acceptances and loans to financial institutions	965	625
Agricultural production financing and other loans to farmers	16,253	18,906
Real estate loans:		
Construction	14,808	13,167
Commercial and farmland	102,594	97,596
Residential	261,644	253,530
Individuals' loans for household and other personal expenditures	117,060	113,507
Tax-exempt loans	1,286	1,643
Other loans	3,044	1,672
Unearned interest on loans	(1,067)	(1,364)
Total	$ 651,782	$ 631,416

	Three Months Ended March 31	
	1997	1996
Allowance for loan losses:		
Balances, January 1	$ 6,622	$ 6,696
Provision for losses	287	280
Recoveries on loans	249	77
Loans charged off	(275)	(499)
Balances, March 31	$ 6,883	6,554

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

RESULTS OF OPERATIONS

The Corporation has recorded 21 consecutive years of growth in earnings per share, reaching $2.00 in 1996, an increase of 8.7 per cent over 1995.

Return on assets rose to 1.41 per cent in 1996, from 1.35 per cent in 1995, and 1.22 per cent in 1994.

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

Following are the levels achieved in each of these ratios during the first quarter of 1997, as compared to the same period in 1996.

- Earnings per share were $.52, up 6.1 per cent from $.49
- Return on assets was 1.42 per cent increasing from 1.39 per cent
- Return on equity totaled 12.11 per cent compared to 12.10 per cent for the first quarter of 1996

CAPITAL

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

The Corporation's Tier I capital to average assets ratio was 11.6 per cent at year-end 1996 and 11.7 per cent at March 31, 1997. At March 31, 1997, the Corporation had a Tier I risk-based capital ratio of 16.8 per cent, total risk-based capital ratio of 17.8 per cent, and a leverage ratio of 11.6 per cent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 per cent and a total risk-based capital ratio of 8.0 per cent.

ASSET QUALITY/PROVISION FOR LOAN LOSSES

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

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

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

The following table summarized the risk elements for the Corporation (table dollar amounts in thousands.)

(Dollars in Thousands)	March 31, 1997	December 31, 1996	December 31, 1995
Non-accrual loans.....................	$2,408	$2,777	$ 576
Loans contractually past due 90 days or more other than nonaccruing.......	1,560	1,699	1,119
Restructured loans....................	1,212	1,540	1,075
Total.........................	$5,180	$6,016	$2,770

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

The Corporation adopted SFAS No. 114 and No. 118 ACCOUNTING BY CREDITORS FOR IMPAIRMENT OF A LOAN AND ACCOUNTING BY CREDITORS FOR IMPAIRMENT OF A LOAN-INCOME RECOGNITION AND DISCLOSURES on January 1, 1995. Impaired loans included in the table above, totaled $3,992,000 at December 31, 1996, was not deemed necessary for impaired loans totaling $868,000, but an allowance of $1,092,000 was recorded for the remaining balance of impaired loans of $3,124,000. The average balance of Impaired loans for 1996 was $5,213,000. The balance of impaired loans has not changed significantly since December 31, 1996.

At December 31, 1996, the allowance for loan losses was $6,622,000, down slightly from year end 1995. As a per cent of loans, the allowance was 1.05 per cent, down from 1.21 per cent at year end 1995. The provision for loan losses in 1996 was $1,253,000 compared to $1,388,000 in 1995.

At March 31, 1997, the allowance for loan losses increased by $261,000 to $6,883,000, or 1.06 per cent of total loans. The first quarter 1997 provision of $287,000 was up only slightly from the same quarter in 1996, and was offset by only $26,000 in net charge-offs.

The table below presents loan loss experience for the years indicated and compares the Corporation's loss experience to that of its peer group, consisting of bank holding companies with assets between $500 million and $1 billion.

	1997 (1)	1996	1995	1994
	(Dollars in Thousands)			
Allowance for loan losses:				
Balance at January 1	$6,622	$6,696	$6,603	$6,467
Chargeoffs	275	1,636	1,554	1,488
Recoveries	249	309	259	422
Net chargeoffs	26	1,327	1,295	1,066
Provision for loan losses	287	1,253	1,388	1,202
Balance at December 31	$6,883	$6,622	$6,696	$6,603
Ratio of net chargeoffs during the period to average loans outstanding during the period	.02% (2)	.23%	.24%	.21%
Peer Group	N/A	.26%	.26%	.25%

(1) Through March 31, 1997

(2) First three months annualized

LIQUIDITY AND INTEREST SENSITIVITY

Asset/Liability management has been an important factor in the Corporation's ability to record consistent earnings growth through periods of interest rate volatility and product deregulation. Management and the Board of Directors monitor the Corporation's liquidity and interest sensitivity positions at regular meetings to ensure that changes in interest rates will not adversely affect earnings. Decisions regarding investment and the pricing of loan and deposit products are made after analysis of reports designed to measure liquidity, rate sensitivity, the Corporation's exposure to changes in net interest income given various rate scenarios, and the economic and competitive environments.

The Corporation's liquidity and interest sensitivity position at March 31, 1997, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk. The table below presents the Corporation's interest rate sensitivity analysis as of March 31, 1997.

INTEREST-RATE SENSITIVITY ANALYSIS
At March 31, 1997
(Dollars in Thousands)

	1-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
Rate-Sensitive Assets:					
Federal funds sold and interest-bearing deposits.......	$ 1,931				$ 1,931
Investment securities	51,840	$ 44,479	$ 140,424	$ 36,672	273,415
Loans...........................	311,822	76,142	212,566	51,396	651,926
Federal Reserve and Federal Home Loan Bank stock............	2,693			397	3,090
Total rate-sensitive assets....	368,286	120,621	352,990	88,465	930,362
Rate-Sensitive Liabilities:					
Interest bearing deposits........	302,945	78,596	303,134	1,332	686,007
Short-term borrowings............	71,626				71,626
Federal Home Loan Bank Advances........................	75	2,072	7,870	2,433	12,450
Total rate-sensitive liabilities	374,646	80,668	311,004	3,765	770,083
Interest rate sensitivity gap by period...........................	$ (6,360)	$ 39,953	$ 41,986	$ 84,700	
Cumulative rate sensitivity gap....	(6,360)	33,593	75,579	160,279	
Cumulative rate sensitivity gap ratio at March 31, 1997...........	98.3%	107.4%	109.9%	120.8%	

The Corporation had a cumulative positive gap of $33,593,000 in the one year horizon at March 31, 1997 or 3.4 per cent of total assets. Net interest income at financial institutions with positive gaps tends to increase when rates increase and generally decrease as interest rates decline.

The .25 per cent increase in the prime lending rate which occurred in late March, 1997 should have a modest positive effect on the Corporation's net interest income.

EARNING ASSETS

Earning assets increased $30.3 million during 1996.

The following table presents the earning asset mix for the years ended 1996 and 1995 and at March 31, 1997.

Loans grew by more than $79 million while short-term investments and securities declined, reflecting the Corporation's intent to change the balance sheet mix to emphasize loans which generally carry higher yields than federal funds sold, interest-bearing deposits and investment securities and often provide collateral business. The same trend continued during the first quarter of 1997. Loans grew by more than $20 million, accounting for all of the growth in earning assets.

EARNING ASSETS
(Dollars in Millions)

	March 31, 1997	December 31, 1996	December 31, 1995
Federal funds sold and interest-bearing deposits............	$ 1.9	$ 1.4	$ 39.2
Investment securities available for sale	231.0	228.4	225.9
Investment securities held to maturity	42.4	47.2	60.7
Mortgage loans held for sale	.1	0.3	0.7
Loans	651.8	631.4	552.3
Federal Reserve and Federal Home Loan Bank stock............	3.1	3.1	2.7
Total..	$ 930.3	$ 911.8	$ 881.5

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

The following table presents the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements with customers, U.S. Treasury demand notes and Federal Home Loan Bank advances) for the years ended 1996 and 1995 and at March 31, 1997. Lack of deposit growth coupled with loan growth has resulted in a greater reliance on borrowed funds. The Corporation plans to place further emphasis on deposit growth going forward through advertising and product development.

DEPOSITS, SHORT-TERM BORROWINGS AND
FEDERAL HOME LOAN BANK ADVANCES
(Dollars in Millions)

	Deposits	Short-Term Borrowings	Federal Home Loan Bank Advances
March 31, 1997..........	$781.9	$ 71.6	$ 12.5
December 31, 1996.......	794.5	45.0	9.2
December 31, 1995.......	783.9	37.4	9.0

NET INTEREST INCOME

Net Interest Income is the primary source of the Corporation's earnings. It is a function of net interest margin and the level of average earning assets.

The table below presents the Corporation's asset yields, interest expense, and net interest income as a per cent of average earning assets for the three-year period ending in 1996 and the first quarter of 1997.

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

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

During the first quarter of 1997, both interest yields and interest costs declined, with yields falling .08 per cent, but costs by only .03 per cent. The resulting .05 per cent decline in margin was offset by earning asset growth of $37 million.

(Dollars in Thousands)

	Interest Income (FTE) as a Per Cent of Average Earning Assets	Interest Expense as a Per Cent of Average Earning Assets	Net Interest Income (FTE) as a Per Cent of Average Earning Assets	Average Earning Assets	Net Interest Income on a Fully Taxable Equivalent Basis
1997 (1)	8.05%	3.64%	4.41%	$917,774	$40,464
1996	8.13	3.67	4.46	880,729	39,258
1995	8.09	3.71	4.38	845,198	37,049
1994	7.42	2.96	4.46	805,987	35,909

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

(1) First Three Months Annualized

OTHER INCOME

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

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

1. Trust revenues increased $166,000 (5.9 percent) due to stronger business activity and markets.
2. Deposit service charges increased $195,000 (6.9 per cent) primarily due to changes in pricing.
3. Interchange fees for the Corporation's credit and debit card programs grew by $169,000 (142 per cent) due to increased product offerings.
4. The Corporation recorded securities gains of $148,000 compared to losses of $30,000 last year, an increase of $178,000 as shorter maturity, available for sale securities were sold at gains and longer maturity, higher yielding investments were purchased.
5. Postal money order agent fees increased $79,000 (19.4 per cent) due to an increased client base.

Other income in the first quarter of 1997 exceeded the same quarter in the prior year by $160,000 or 8.1 per cent. Two categories accounted for most of this increase:

1. Trust fees grew by $38,000 or 5.5 per cent, again due to stronger activity and positive investment returns.
2. Deposit service charges increased by $82,000 or 10.8 per cent due primarily to changes in pricing.

OTHER EXPENSE

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

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

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

First quarter other expense in 1997 exceeded the same quarter one year earlier by $384,000 or 6.6 per cent. Four primary areas account for this increase:

1. Salaries and benefits grew by $182,000 or 5.6 per cent due primarily to normal annual salary adjustments.
2. Business supply expense grew by $50,000 or nearly 27 per cent primarily due to increased use of data processing supplies and personal money order forms.
3. Equipment expense grew $29,000 or 5.4 per cent, again reflecting the Corporation's investment in technology to increase productivity and improve customer service.
4. Marketing expense increased $29,000 (almost 18 per cent).

INCOME TAXES

1996 income tax expense increased by $698,000 primarily due to a $1,792,000 increase in net pre-tax income. Likewise, the increase of $95,000 in the first quarter of 1997, as compared to the same quarter in 1996, results from a $337,000 increase in pre-tax net income which was partially offset by a $139,000 increase in tax exempt income.

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 the address is (http://www.sec.gov).

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

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

None during the period covered by this report.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

EXHIBIT NO.:	DESCRIPTION OF EXHIBIT:	FORM 10-Q PAGE NUMBER
10.1	First Merchants Corporation Supplemental Executive Retirement Plan....	21
10.2	Trust Under First Merchants Corporation Supplemental Executive Retirement Plan....	28
27.1	Financial Data Schedule, Quarter Ended March 31, 1997............................	36
27.2	Restated Financial Data Schedule, Quarter Ended March 31, 1996......................	37
27.3	Restated Financial Data Schedule, Quarter Ended March 31, 1995......................	38

(b) Reports on Form 8-K:

No reports were filed on Form 8-K during the quarter ended March 31, 1997.

FIRST MERCHANTS CORPORATION

FORM 10-Q

SIGNATURES

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

FIRST MERCHANTS CORPORATION

(Registrant)

Date	May 12, 1997	by	/s/ Stefan S. Anderson Stefan S. Anderson President and Director
Date	May 12, 1997	by	/s/ James L. Thrash James L. Thrash Chief Financial & Principal Accounting Officer

- --
EXHIBIT 10.1 -- First Merchants Corporation
Supplemental Executive Retirement Plan
- --

SECTION 1. ESTABLISHMENT AND PURPOSE

A. Establishment. First Merchants Corporation (the "Employer"), hereby establishes a non-qualified supplemental executive retirement plan for certain executives, as designated and described herein, which shall be known as the FIRST MERCHANTS CORPORATION SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (the "Plan").

B. Purpose. The purpose of the Plan is to enable the Employer to attract, retain, and motivate key executive employees of high caliber, and to provide equitable retirement and survivor benefits for certain key executive employees, their surviving spouses and designated beneficiaries.

SECTION 2. DEFINITIONS

For purposes of this Plan, certain words or phrases used herein will have the following meanings:

A. "Board of Directors" means the Board of Directors of First Merchants Corporation.

B. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

C. "Compensation Committee" means the Employer's Compensation and Human Resources Committee.

D. "Executive" means a key executive Employee that is designated to participate in the Plan under Section 3 below.

E. "Non-qualified SERP Benefit" means the difference between (1) and (2), where (1) is the Retirement Benefit that would have been paid the Executive from the Pension Plan at the Executive's Normal, Early, Late or Disability Retirement Date (whichever is applicable) if there were no compensation limit imposed under Code Section 401(a)(17) and if Final Average Monthly Plan Compensation did not exclude bonuses for purposes of determining the Standard Benefit Formula, and (2) is the Retirement Benefit payable to the Executive under the Pension Plan at the Executive's Normal, Early, Late or Disability Retirement Date (whichever is applicable).

F. "Pension Plan" means the First Merchants Corporation Retirement Pension Plan, as amended, a qualified pension plan under Section 401(a) of the Internal Revenue Code of 1986, as amended.

G. "Term Certain Expiration Date" means the 15th anniversary of the event, retirement or death, which causes payment of benefits under this Plan to commence.

H. The following terms will have the same meanings as they have under the Pension Plan: "Employee," "Employer," "Final Average Monthly Plan Compensation," "Normal, Early, Late, or Disability Retirement Date," "Retirement Benefit," "Normal, Early, Late, or Disability Retirement Benefit," "Optional Form of Payment," and "Standard Benefit Formula."

SECTION 3. DESIGNATION OF EXECUTIVES PARTICIPATING IN PLAN

The Compensation Committee shall have the sole discretion, from time to time, to designate Employees to participate in the Plan as covered Executives. This designation shall be by resolution of the Compensation Committee and shall be limited to management or highly compensated Employees. The Compensation Committee shall notify each Employee so designated in writing. Covered Executives, their spouses and designated beneficiaries shall be entitled to benefits under this Plan if the Executive is employed by the Employer on his or her 65th birthday, Early Retirement Date, Disability Retirement Date or death, whichever occurs earliest.

SECTION 4. RETIREMENT BENEFIT

If an Executive retires on his or her Normal, Early, Late or Disability Retirement Date, the Executive shall receive each year thereafter, in the manner described in Section 6, an amount equal to the Non-qualified SERP Benefit for the Executive's lifetime. If the Executive's Retirement Benefit under the Pension Plan commences at a time other than his or her Normal Retirement Date or in an Optional Form of Payment, the amount of the Non-qualified SERP Benefit shall be adjusted using the same actuarial factors and assumptions (except as otherwise provided in Section 7 of this Plan) used to calculate the Retirement Benefit payable to the Executive under the Pension Plan.

SECTION 5. PRE-RETIREMENT SURVIVOR BENEFIT

If a covered Executive dies while still actively employed by the Employer, and if the Executive is survived by the Executive's spouse, the Executive's spouse shall receive each year until the Term Certain Expiration Date, in the manner described in Section 6, the Non-qualified SERP Benefit otherwise payable to the Executive under this Plan, determined as if the Executive had retired on the date immediately preceding the date of the Executive's death. If the Executive is not survived by the Executive's spouse, or if the spouse does not live until the Term Certain Expiration Date, the person(s) designated under Section 8 shall receive each year, in the manner described in Section 6, an amount equal to such Benefit.

SECTION 6. MANNER OF PAYING BENEFITS

Within 30 days following the death or retirement of the Executive, a monthly benefit payment shall be commence equal to the yearly benefit payable under Section 4 or 5 of this Plan.

SECTION 7. FIFTEEN YEAR TERM CERTAIN

Benefits on behalf of a covered Executive, whether payable as a Normal, Early, Late, or Disability Retirement Benefit, or as a Pre-retirement Survivor Benefit or other death benefit payable to a designated beneficiary, shall be made at least through the Term Certain Expiration Date, without any actuarial reduction on account of such guaranteed payment. At any time, in the discretion of the Compensation Committee, the commuted value of the future benefits payable under the Plan on behalf of any recipient may be computed and paid in one lump sum.

SECTION 8. DESIGNATION OF BENEFICIARY

An Executive, or subsequent to the Executive's death, the Executive's spouse, may designate the person(s) to receive the benefits payable under this Plan if the Executive and the Executive's spouse do not live to receive the benefits through the Term Certain Expiration Date. If such designation is not made, or if no designated beneficiary is then living, such benefit shall be paid to the Executive's spouse, if then living, or if not, to the Executive's descendants, PER STIRPES, who are then living, or if there are no such descendants then living, to the Executive's estate.

SECTION 9. EARLY, LATE OR DISABILITY RETIREMENT

The Compensation Committee may grant to a covered Executive, while in the employ of the Employer, early, late or disability retirement under this Plan, if such Executive is eligible for and elects an Early, Late or Disability Retirement Benefit under the Pension Plan. The Compensation Committee, in its sole discretion, may provide that retirement benefits under this Plan shall begin at any time after the granting of early, late or disability retirement, rather than at the Executive's Normal Retirement Date, and the Term Certain Expiration Date shall terminate on the 15th anniversary of the commencement of retirement benefits.

SECTION 10. TERMINATION OF EMPLOYMENT

If an Executive's employment with the Employer is terminated prior to his or her Normal Retirement Date, either by the Employer or by the Executive, and either with or without cause, no benefits shall be paid under any provision of this Plan, unless the Compensation Committee, in its sole discretion, shall provide that the benefits will be paid regardless of the termination of the Executive's employment. However, early or disability retirement or death shall not be deemed to be a termination of employment for purposes of this Section.

SECTION 11. PROHIBITION OF COMPETITIVE EMPLOYMENT

If, during the period of an Executive's employment with the Employer or while the Executive is receiving benefits under this Plan, a covered Executive engages in competitive activities without the Employer's written consent, no further benefits shall be payable under any provision of this Plan. For purposes of this Section, "competitive activities" shall mean engaging, directly or indirectly (including providing consulting services), in a business similar to any business of the Employer or any of its subsidiaries, or owning, managing, operating, controlling, being employed by, participating in, having any financial interest in, or being connected in any manner with the ownership, management, operation or conduct of, any such similar business.

SECTION 12. TITLE TO LIFE INSURANCE

If life insurance is purchased to provide the Employer with funds to make benefit payments under this Plan to or on behalf of a covered Executive, the owner and beneficiary of such life insurance contract shall at all times be the Employer or, if the Employer establishes a "rabbi trust" in connection with this Plan, the trustee of such trust. If the Employer is the owner and beneficiary of the life insurance contract, it shall have the unrestricted right to use all amounts and to exercise all options and privileges thereunder without the knowledge or consent of the Executive, his or her designated beneficiary, or any other person, it being expressly agreed that neither the Executive nor any such beneficiary or other person shall have any right, title or interest whatsoever in or to any such contract. If the trustee of a "rabbi trust" is the owner and beneficiary of the life insurance contract, the respective rights and interests of the Employer, the trustee, the Executive, his or her designated beneficiary, and other persons, shall be governed by the terms of the trust agreement and the life insurance contract.

SECTION 13. PAYMENTS ARE NOT SECURED

Except as provided in the "rabbi trust" agreement, if any, established by the Employer in connection with this Plan, (a) the Executive, his or her designated beneficiary and any other person or persons having or claiming a right to payment of benefits hereunder, or to any interest under this Plan, shall rely solely on the unsecured promise of the Employer, and (b) nothing herein shall be construed to give the Executive, his or her designated beneficiary or any other person or persons any right, title, interest or claim in or to any specific asset, fund, reserve, account or property of any kind whatsoever owned by the Employer or in which it may have any right, title or interest now or in the future, but the Executive shall have the right to enforce his or her claim against the Employer in the same manner as any unsecured creditor.

SECTION 14. NON-ASSIGNABILITY OF BENEFITS

Neither the Executive, nor his or her designated beneficiary, nor any other person entitled to any payment hereunder, shall have power to transfer, assign, anticipate, mortgage or otherwise encumber any right to receive a payment in advance of the time such payment is due under the provisions of this Plan, and any attempted transfer, assignment, anticipation, mortgage or encumbrance shall be void. No payment hereunder shall be subject to seizure for the payment of public or private debts, judgments, alimony or separate maintenance, or be transferable by operation of law in the event of bankruptcy, insolvency or otherwise.

SECTION 15. ADMINISTRATION OF THE PLAN

The Plan shall be administered by the Compensation Committee, which shall have sole authority to construe and interpret the Plan and issue such rules and regulations as it deems appropriate. The Compensation Committee shall have the duty and responsibility of deciding questions of eligibility, determining the amount, manner and time of payment of any benefits hereunder, and distributing the benefits to covered Executives, their spouses and/or beneficiaries; provided, however, the Compensation Committee may appoint or employ individuals to assist in the administration of the Plan and any other agents it deems advisable, including legal and actuarial counsel. The Compensation Committee's interpretations, determinations, rules and regulations, and calculations shall be final and binding on all persons and parties concerned. If a covered Executive, spouse or beneficiary desires a review of any benefit determination made by the Compensation Committee, he or she shall follow the claims review procedure described in Section 6.06 of the Pension Plan (except that such appeal shall be to the Compensation Committee rather than to the committee responsible for administering the Pension Plan, if different).

SECTION 16. AMENDMENT

This Plan may be amended at any time or from time to time by the Board of Directors of the Employer. Any amendment shall not reduce the benefit of any covered Executive, or any person receiving benefits under this Plan, without the written consent of the affected person. The failure of either the Employer or any covered Executive to enforce any of the provisions hereof shall not be deemed a waiver thereof. No provision of this Plan shall be deemed to have been waived or modified unless such waiver or modification shall be in writing and signed by the party or parties affected by such waiver or modification. The Employer reserves the right to terminate the Plan at any time by action of the Board of Directors. The termination of this Plan shall not affect the benefits of any Executive, Executive's spouse or designated beneficiary covered by the Plan, prior to termination.

SECTION 17. NON-GUARANTEE OF EMPLOYMENT

This Plan shall not be construed as giving any Executive the right to be retained as an Employee of the Employer for any period.

SECTION 18. BINDING EFFECT AND GOVERNING LAW

This Plan shall be binding upon the Executive and the Executive's spouse, beneficiaries, heirs, executors, administrators, personal representatives, successors and assigns, and upon the Employer and its successors and assigns. Except as preempted by ERISA or any other applicable federal law, the Plan shall be construed, enforced and administered, and the validity thereof shall be determined, in accordance with the laws of the State of Indiana.

This Plan was adopted by the Board of Directors of First Merchants Corporation on February 11, 1997, and shall be effective as of March 1, 1997.

First Merchants Corporation

By: /s/ Stefan S. Anderson

Title: President

Schedule A to First Merchants Corporation
Supplemental Executive Retirement Plan

The Corporation's Supplemental Executive Retirement Plan covers the following executives:

Name	Offices with the Corporation and Subsidiary Banks
Stefan S. Anderson	President and Chief Executive Officer, Corporation; Chief Executive Officer, First Merchants Bank, N.A.
Michael L. Cox	Executive Vice President, Chief Operating Officer, Corporation; Chief Operating Officer, First Merchants Bank, N.A.
Ted J. Montgomery	Senior Vice President, Corporation; Chief Executive Officer, The Union County National Bank of Liberty
Roger W. Gilcrest	Executive Vice President, First Merchants Bank, N.A.

- --

EXHIBIT 10.2 -- Trust Under First Merchants Corporation
Supplemental Executive Retirement Plan

- --

This Agreement made this 1st day of March, 1997, by and between First Merchants Corporation ("EMPLOYER"), and First Merchants Bank, N.A. ("TRUSTEE"):

WHEREAS, Employer has adopted the nonqualified deferred compensation plan known as the First Merchants Corporation Supplemental Executive Retirement Plan ("PLAN");

WHEREAS, Employer has incurred or expects to incur liability under the terms of such Plan with respect to the individuals participating in such Plan;

WHEREAS, Employer wishes to establish a trust (hereinafter called "TRUST") and to contribute to the Trust assets that shall be held therein, subject to the claims of Employer's creditors in the event of Employer's Insolvency, as herein defined, until paid to Plan participants and their beneficiaries in such manner and at such times as specified in the Plan;

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974; and

WHEREAS, it is the intention of Employer to make contributions to the Trust to provide itself with a source of funds to assist it in the meeting of its liabilities under the Plan.

NOW, THEREFORE, the parties do hereby establish the trust and agree that the Trust shall be comprised, held and disposed of as follows:

SECTION 1. ESTABLISHMENT OF TRUST.

(a) Employer hereby deposits with Trustee in trust the cash and insurance policies listed in Schedule A, which shall become the principal of the Trust to be held, administered and disposed of by Trustee as provided in this Trust Agreement.

(b) The Trust hereby established shall be irrevocable.

(c) The Trust is intended to be a grantor trust, of which Employer is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of Employer and shall be used exclusively for the uses and purposes of Plan participants and general creditors as herein set forth. Plan participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and this Trust Agreement shall be mere unsecured contractual rights of Plan participants and their beneficiaries against Employer. Any assets held by the Trust will be subject to the claims of Employer's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) Employer, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property in trust with Trustee to augment the principal to be held, administered and disposed of by Trustee as provided in this Trust Agreement. Neither Trustee nor any Plan participant or beneficiary shall have any right to compel such additional deposits.

SECTION 2. PAYMENTS TO PLAN PARTICIPANTS AND THEIR BENEFICIARIES.

(a) Employer shall deliver to Trustee a schedule (the "PAYMENT SCHEDULE") that indicates the amounts payable in respect of each Plan participant (and his or her beneficiaries), that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plan), and the time of commencement for payment of such amounts. Except as otherwise provided herein, Trustee shall make payments to the Plan participants and their beneficiaries in accordance with such Payment Schedule. The Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plan and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by Employer.

(b) The entitlement of a Plan participant or his or her beneficiaries to benefits under the Plan shall be determined by Employer or such party as it shall designate under the Plan, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plan.

(c) Employer may make payment of benefits directly to Plan participants or their beneficiaries as they become due under the terms of the Plan. Employer shall notify Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to participants or their beneficiaries. In addition if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plan, Employer shall make the balance of each such payment as it falls due. Trustee shall notify Employer where principal and earnings are not sufficient.

SECTION 3. TRUSTEE RESPONSIBILITY REGARDING PAYMENTS TO TRUST BENEFICIARY WHEN EMPLOYER IS INSOLVENT.

(a) Trustee shall cease payment of benefits to Plan participants and their beneficiaries if the Employer is Insolvent. Employer shall be considered "Insolvent" for purposes of this Trust Agreement if (i) Employer is unable to pay its debts as they become due, or (ii) Employer is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of Employer under federal and state law as set forth below.

(1) The Board of Directors and the Chief Executive Officer of Employer shall have the duty to inform Trustee in writing of Employer's insolvency. If a person claiming to be a creditor of Employer alleges in writing to Trustee that Employer has become insolvent, Trustee shall determine whether Employer is Insolvent and, pending such determination, Trustee shall discontinue payment of benefits to Plan participants or their beneficiaries.

(2) Unless Trustee has actual knowledge of Employer's insolvency, or has received notice from Employer or a person claiming to be a creditor alleging that Employer is Insolvent, Trustee shall have no duty to inquire whether Employer is Insolvent. Trustee may in all events rely on such evidence concerning Employer's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning Employer's solvency.

(3) If at any time Trustee has determined that Employer is insolvent, Trustee shall discontinue payments to Plan participants or their beneficiaries and shall hold the assets of the Trust for the benefit of Employer's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Plan participants or their beneficiaries to pursue their rights as general creditors of Employer with respect to benefits due under the Plan or otherwise.

(4) Trustee shall resume the payment of benefits to Plan participants or their beneficiaries in accordance with Section 2 of this Trust Agreement only after Trustee has determined that Employer is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Plan participants or their beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made to Plan participants or their beneficiaries by Employer in lieu of the payments provided for hereunder during any such period of discontinuance.

SECTION 4. PAYMENTS TO EMPLOYER.

Except as provided in Section 3 hereof, after the Trust has become irrevocable, Employer shall have no right or power to direct Trustee to return to Employer or to divert to others any of the Trust assets before all payment of benefits have been made to Plan participants and their beneficiaries pursuant to the terms of the Plan.

SECTION 5. INVESTMENT AUTHORITY.

(a) The Trustee shall invest and reinvest the principal and income received by and held in the Trust, and keep such assets invested without distinction between principal and income, in insurance contracts, common or preferred stocks, corporate and government bonds and notes, and other securities in accordance with such investment guidelines as Employer may provide to the Trustee from time to time.

(b) Subject to paragraph (a) of this Section, Trustee may invest in securities (including stock or rights to acquire stock) or obligations issued by Employer. All rights associated with assets of the Trust shall be exercised by Trustee or the person designated by Trustee, and shall in no event be exercisable by or rest with Plan participants.

(c) Employer shall have the right at any time, and from time to time in its sole discretion, to substitute assets of equal fair market value for any asset held by the Trust. This right is exercisable by Employer in a nonfiduciary capacity without the approval or consent of any person in a fiduciary capacity.

SECTION 6. DISPOSITION OF INCOME.

During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

SECTION 7. ACCOUNTING BY TRUSTEE.

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between Employer and Trustee. With sixty (60) days following the close of each calendar year and within sixty (60) days after the removal or resignation of Trustee, Trustee shall deliver to Employer a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

SECTION 8. RESPONSIBILITY OF TRUSTEE.

(a) Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by Employer which is contemplated by, and in conformity with, the terms of the Plan or this Trust and is given in writing by Employer. In the event of a dispute between Employer and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) If Trustee undertakes or defends any litigation arising in connection with this Trust, Employer agrees to indemnify Trustee against Trustee's costs, expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If Employer does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from the Trust.

(c) Trustee may consult with legal counsel (who may also be counsel for Employer generally) with respect to any of its duties or obligations hereunder.

(d) Trustee may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder.

(e) Trustee shall have, without exclusion, all powers conferred on Trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(f) Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of Section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

SECTION 9. COMPENSATION AND EXPENSES OF TRUSTEE.

Employer shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust.

SECTION 10. RESIGNATION AND REMOVAL OF TRUSTEE.

(a) Trustee may resign at any time by written notice to Employer, which shall be effective thirty (30) days after receipt of such notice unless Employer and Trustee agree otherwise.

(b) Trustee may be removed by Employer on thirty (30) days' notice or upon shorter notice accepted by Trustee.

(c) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within sixty (60) days after receipt of notice of resignation, removal or transfer, unless Employer extends the time limit.

(d) If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of resignation or removal under paragraph (a) or (b) of this Section. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

SECTION 11. APPOINTMENT OF SUCCESSOR.

(a) If Trustee resigns or is removed in accordance with Section 10(a) or (b) hereof, Employer may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor to replace Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by Employer or the successor Trustee to evidence the transfer.

(b) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 7 and 8 hereof. The successor Trustee shall not be responsible for and Employer shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

SECTION 12. AMENDMENT OR TERMINATION.

(a) This Trust may be amended by a written instrument executed by Trustee and Employer. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plan or shall make the Trust revocable after it has become irrevocable in accordance with Section 1(b) hereof.

(b) The Trust shall not terminate until the date on which Plan participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plan. Upon termination of the Trust any assets remaining in the Trust shall be returned to Employer.

(c) Upon written approval of all participants and beneficiaries then or thereafter entitled to payment of benefits pursuant to the terms of the Plan, Employer may terminate this Trust prior to the time all benefit payments under the Plan have been made. All assets in the Trust at termination shall be returned to Employer.

SECTION 13. MISCELLANEOUS.

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to Plan participants and their beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of the State of Indiana.

SECTION 14. EFFECTIVE DATE.

The effective date of this Trust Agreement shall be March 1, 1997.

First Merchants Corporation	First Merchants Bank, N.A.
By: /s/ Stefan S. Anderson	By: /s/ Roger W. Gilcrest
Title: President	Title: Executive Vice President
EMPLOYER	TRUSTEE

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FIRST MERCHANTS CORPORATION'S CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED) FOR QUARTER ENDED MARCH 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS
DEC-31-1997
JAN-01-1997
MAR-31-1997
35,020
371
1,560
0
230,973
42,442
42,382
652,926
6,883
987,831
781,893
71,626
8,072
12,450
0
0
827
112,963
987,831
13,822
3,988
74
17,884
7,502
8,343
9,541
287
10
6,206
5,180
3,429
0
0
3,429
.52
.52
0
0
0
0
0
0
0
0
0
0
0
0

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FOR FIRST MERCHANTS CORPORATION FOR QUARTER ENDED MARCH 31, 1996 RESTATED AS A RESULT OF POOLING OF INTEREST TRANSACTIONS.

3-MOS
DEC-31-1996
JAN-01-1996
MAR-31-1996
26,739
360
13,575
0
229,658
56,700
56,967
565,045
6,554
916,480
753,458
40,324
7,864
9,000
0
0
821
105,031
916,480
12,498
4,201
311
17,010
7,365
8,037
8,973
280
17
5,822
4,843
3,187
0
0
3,187
.49
.49
0
0
0
0
0
0
0
0
0
0
0
0

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FOR FIRST MERCHANTS CORPORATION FOR QUARTER ENDED MARCH 31, 1995 RESTATED AS A RESULT OF POOLING OF INTEREST TRANSACTIONS.

3-MOS
DEC-31-1995
JAN-01-1995
MAR-31-1995
32,614
162
3,675
0
142,270
126,798
126,142
531,493
6,709
862,922
712,541
38,113
6,538
8,000
0
0
610
95,588
862,922
11,599
3,835
76
15,508
6,096
6,831
8,677
236
23
5,815
4,418
2,924
0
0
2,924
.45
.45
0
0
0
0
0
0
0
0
0
0
0
0