FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 or 15 (d) of

THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 1995

Commission File Number 0-17071

First Merchants Corporation

(Exact name of registrant as specified in its character)

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

(317) 747-1500

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days,

Yes X No

As of August 7, 1995, there were outstanding 3,381,189 common shares, without par value, of the registrant.

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

	June 30, 1995	December 31, 1994
ASSETS:		
Cash and due from banks	$ 26,154	$ 42,684
Federal funds sold	40,250	3,675
Cash and cash equivalents	66,404	46,359
Interest-bearing time deposits	69	23
Securities available for sale	118,086	99,363
Securities held to maturity (fair value $73,974 and $76,522)	73,926	77,677
Federal Reserve and Federal Home Loan Bank stock	1,892	1,879
Loans:		
Loans, net of unearned interest	419,288	401,605
Less: Allowance for loan losses	5,096	4,998
Net loans	414,192	396,607
Premises and equipment	9,873	9,545
Interest receivable	6,131	5,627
Core deposit intangibles and goodwill	1,911	1,977
Others assets	4,722	5,549
Total assets	$ 697,206	$ 644,606
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 85,725	$ 99,667
Interest-bearing	476,503	430,163
Total deposits	562,228	529,830
Short-term borrowing	52,874	39,189
Interest payable	1,688	1,320
Other liabilities	3,790	3,249
Total liabilities	620,580	573,588
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 -- 3,369,438 and 3,366,346 shares	421	421
Additional paid-in capital	16,227	16,231
Retained earnings	59,919	56,886
Net unrealized gains/(losses) on securities available for sale	59	(2,520)
Total stockholders' equity	76,626	71,018
Total liability and stockholders' equity	$ 697,206	$ 644,606

See notes to consolidated condensed financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	1995	1994	1995	1994
Interest Income:				
Loans, including fees:				
Taxable	$ 9,425	$ 7,754	$ 18,362	$ 14,979
Tax exempt	27	21	45	44
Securities:				
Taxable	2,048	2,221	4,060	4,547
Tax exempt	618	627	1,163	1,200
Federal funds sold	277	32	319	70
Interest-bearing time deposits	1		1	2
Federal Reserve and Federal Home Loan Bank Stock	39	24	73	48
Total interest income	12,435	10,679	24,023	20,890
Interest expense:				
Deposits	4,944	3,500	9,002	6,840
Short-term borrowings	491	429	1,094	857
Total interest expense	5,435	3,929	10,096	7,697
Net Interest Income	7,000	6,750	13,927	13,193
Provision for loan losses	160	199	320	392
Net Interest Income After Provision For Loan Losses	6,840	6,551	13,607	12,801
Other Income:				
Securities gains (losses), net	(76)	1	(66)	11
Other income	1,644	1,549	3,277	3,129
Total other income	1,568	1,550	3,211	3,140
Total other expenses	4,591	4,515	9,303	8,910
Income before income tax	3,817	3,586	7,515	7,031
Income tax expense	1,288	1,226	2,595	2,425
Net Income	$ 2,529	$ 2,360	$ 4,920	$ 4,606
Per share:				
Net income	$ .75	$ .70	$ 1.46	$ 1.36
Dividends	.28	.25	.56	.50
Weighted average shares outstanding	3,370,482	3,381,468	3,368,985	3,385,047

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	1995	1994
Balances, January 1.	$ 71,018	$ 68,804
Net Income	4,920	4,606
Cash dividends	(1,887)	(1,691)
Stock issued under dividend reinvestment and stock purchase plan.	201	170
Stock options exercised.	187	41
Stock redeemed	(392)	(480)
Change in net unrealized gains/(losses) on securities available for sale.	2,579	(1,552)
Balances, June 30.	$ 76,626	$ 69,898

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Dollar amounts in thousands, except per share amounts)
(Unaudited)

	Six Months Ended June 30	
	1995	1994
Cash Flows From Operating Activities:		
Net income	$ 4,920	$ 4,606
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	320	392
Depreciation and amortization	592	563
Securities amortization	499	563
Change in interest receivable	(442)	(409)
Change in interest payable	368	(33)
Other adjustments	(229)	(212)
Net cash provided by operating activities	6,028	5,470
Cash Flows From Investing Activities:		
Net change in interest-bearing time deposits	(46)	254
Purchases of:		
Securities available for sale	(34,036)	(12,559)
Securities held to maturity	(14,851)	(27,653)
Proceeds from maturities of:		
Securities available for sale	7,991	6,452
Securities held to maturity	18,419	24,127
Proceed from sales of securities available for sale	11,196	9,564
Net change in loans	(18,046)	(14,010)
Purchases of premises and equipment	(920)	(268)
Other investing activities	118	286
Net cash used in investing activities	(30,175)	(13,807)
Cash Flows From Financing Activities:		
Net change in		
Noninterest-bearing, NOW, money market and savings deposits	(2,423)	13,109
Certificates of deposit and other time deposits	34,821	(982)
Short-term borrowings	13,685	5,491
Cash dividends	(1,887)	(1,691)
Stock issued under dividend reinvestment and stock purchase plan	201	170
Stock options exercised	187	41
Stock redeemed	(392)	(480)
Net cash provided by financing activities	44,192	15,658
Net Increase in Cash and Cash Equivalents	20,045	7,321
Cash and Cash Equivalents, January 1	46,359	26,567
Cash and Cash Equivalents, June 30	$ 66,404	$ 33,888

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Unaudited)

NOTE 1. General

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

NOTE 2. Changes in Methods of Accounting

In May, 1993, the Financial Accounting Standard Board issued Statement of Financial Accounting Standards No. 115 (SFAS No. 115), ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES. The statement requires that securities be classified in three categories and provides specific accounting treatment for each. Trading securities are bought and held primarily for sale in the near term and are carried at fair value, with unrealized holding gains and losses included in earnings; held-to maturity securities, for which the intent is to hold to maturity, are carried at amortized cost; and available-for-sale securities are all others and are carried at fair value with unrealized holding gains and losses excluded from earnings and reported as a separate component of stockholders' equity.

The Corporation adopted SFAS No. 115 on January 1, 1994. At that date, securities with an approximate carrying value of $107,569,000 were reclassified as available for sale. This reclassification resulted in an increase in total stockholders' equity, net of tax, of $644,000.

In May, 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 114 (SFAS No. 114), ACCOUNTING BY CREDITORS FOR IMPAIRMENT OF A LOAN. The Statement requires that impaired loans that are within the scope of this Statement be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

The Corporation adopted SFAS No. 114 on January 1, 1995. The adoption of SFAS No. 114 did not have a material impact on the financial condition or the results of operations of the Corporation.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENT
(Dollar amounts in thousands)
(Unaudited)

Note 3. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale at June 30, 1995:				
U.S. Treasury	$ 2,022	$ 12	$ 15	$ 2,019
Federal agencies.	48,978	710	302	49,386
State and municipal	15,051	220	127	15,144
Mortgage and other asset-backed securities. . . .	25,567	127	306	25,388
Other Securities.	250			250
Corporate obligations	26,120	106	327	25,899
Total.	$ 117,988	$ 1,175	$ 1,077	$ 118,086
Securities held to maturity at June 30, 1995:				
U.S. Treasury	$ 8,112	$ 17	$ 36	8,093
Federal agencies.	19,748	56	108	19,696
State and municipal	42,117	350	226	42,241
Mortgage and other asset-backed securities. . . .	1,316	6		1,322
Corporate obligations	2,633		11	2,622
Total.	$ 73,926	$ 429	$ 381	$ 73,974
Securities available for sale at December 31, 1994:				
U.S. Treasury	$ 11,817		$ 550	$ 11,267
Federal Agencies.	35,565		1,271	34,294
State and municipal	9,762	$ 31	385	9,408
Mortgage and other asset-backed securities. . . .	22,171	29	836	21,364
Corporate obligations	24,221	4	1,195	23,030
Total.	$ 103,536	$ 64	$ 4,237	$ 99,363

(Dollar amounts in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity at December 31, 1994				
U.S. Treasury	$ 12,630	$ 21	$ 222	$ 12,429
Federal agencies	24,529	29	469	24,089
State and municipal	38,117	211	680	37,648
Mortgage and other asset-backed securities	370			370
Corporate obligations	2,031		45	1,986
Total	$ 77,677	$ 261	$ 1,416	$ 76,522

	Cost June 30, 1995	Cost December 31, 1994
Federal Reserve and Federal Home Loan Bank stock:		
Federal Reserve Bank stock	$ 307	$ 307
Federal Home Loan stock	1,585	1,572
Total	$ 1,892	$ 1,879

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENT
(Dollar amounts in thousands)
(Unaudited)

NOTE 4. Loans and Allowance

	June 30, 1995	December 31, 1994
Loans:		
Commercial and industrial loans	$ 86,003	$ 78,943
Bankers' acceptances and loans to financial institutions	2,200	
Agricultural production financing and other loans to farmers	6,735	5,310
Real estate loans:		
Construction	7,992	8,126
Commercial and farmland	56,680	64,110
Residential	176,148	164,760
Individuals' loans for household and other personal expenditures	80,725	78,041
Tax exempt loans	950	1,204
Other loans	1,855	1,111
Total loans	$ 419,288	$ 401,605
Nonperforming Loans:		
Nonaccruing loans	$ 346	$ 326
Loans contractually past due 90 days or more other than nonaccruing	499	703
Restructured loans	705	754

	Six Months Ended June 30	
Allowance for loan losses:	1995	1994
Balances, January 1	$ 4,998	$ 4,800
Provision for losses	320	392
Recoveries on loans	94	84
Loans charged off	(316)	(353)
Balances, June 30	$ 5,096	$ 4,923

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

RESULTS OF OPERATIONS

The Corporation has recorded 19 consecutive years of growth in operating earnings per share, reaching $2.71 in 1994, an increase of 9.3 per cent over 1993.

Return on assets, which exceeded 1 per cent for the first time in 1988, rose to 1.44 per cent in 1994, from 1.39 per cent in 1993, and 1.29 per cent in 1992.

Return on equity exceeded 12 per cent for the first time in 1989, was 12.71 per cent in 1992, 13.01 per cent in 1993, and 13.06 per cent in 1994.

Improvement was achieved in two of these ratios during the first half of 1995, as compared to the same period in 1994.

- Earning per share were $1.46, up 7.4 per cent from $1.36
- Return on assets was 1.53 per cent increasing from 1.45 per cent
- Return on equity totalled 13.11 per cent compared to 13.27 per cent for the first half of 1994

CAPITAL

First Merchants Corporation's capital strength continues to exceed regulatory minimums and peer group averages. Management believes that strong capital is a distinct advantage in the competitive environment in which the Corporation operates, and will provide a solid foundation for continued growth, and instilling customer confidence. First Merchants Corporation and its subsidiaries have received honors from various financial rating services recognizing the Banks for safety and soundness. Earnings asset quality and capital strength were considered in the ratings.

Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 per cent, a total risk-based capital ratio of 8.0 per cent and a leverage ratio of 4.0 per cent.

The Corporation's capital ratios exceed regulatory requirements as shown in the following table (table dollar amounts in thousands).

	June 30, 1995	December 31, 1994	June 30, 1994
Capital to Asset	10.99%	11.02%	10.85%
Tier 1 risk-based capital ratio.	16.33	16.28	15.98
Total risk-based capital ratio	17.44	17.41	17.11
Leverage ratio	11.35	11.54	10.98

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

ASSET QUALITY/PROVISION FOR LOAN LOSSES

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

The allowance for loan losses is maintained through the provision for loan losses, which is a charge against earnings. The amount provided for loan losses, and the determination of the adequacy of the allowance are based on a continuous review of the loan portfolio, including an internally administered loan "watch" list. The evaluation takes into consideration identified credit problems as well as the possibility of losses inherent in the loan portfolio that cannot be specifically identified.

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

	Non-Performing Loans as a Per Cent of Loans	
	First Merchants Corporation	Peer Group
June 30, 1995	.20%	N/A
December 31, 1994	.26	.98%
December 31, 1993	.30	1.62
December 31, 1992	.41	1.82
December 31, 1991	.86	2.54
December 31, 1990	1.09	2.57

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

On June 30, 1995, the loan loss reserve stood at $5,096,000. As a per cent of loans, the reserve stood at 1.22 per cent compared to 1.24 per cent at year end 1994, and 1.27 per cent at year end 1993. The provision for loan losses for the first half of 1995 declined to $320,000 from $392,000 for the same period of 1994, based on management's analysis of the adequacy of the reserve in light of improving credit quality in the loan portfolio.

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

	June 30, 1995	Dec. 31, 1994	Dec. 31, 1993	Dec. 31, 1992	Dec. 31, 1991
Allowance for loan losses:					
Balance at January 1.	$ 4,998	$ 4,800	$ 4,351	$ 3,867	$ 3,254
Addition resulting from acquisition .					252
Chargeoffs:					
Commercial.	69	526	391	588	806
Real estate mortgage.		41	129	100	41
Installment	247	346	388	552	511
Total chargeoffs	316	913	908	1,240	1,358
Recoveries:					
Commercial.	44	216	240	215	227
Real estate mortgage.	3	30	5	38	7
Installment	47	83	98	114	84
Total recoveries	94	329	343	367	318
Net chargeoffs	222	584	565	873	1,040
Provision for loan losses.	320	782	1,014	1,357	1,401
Balance, end of period	$ 5,096	$ 4,998	$ 4,800	$ 4,351	$ 3,867
Ratio of net chargeoffs during the period to average loans during the period annualized	.10%	.15%	.16%	.26%	.35%
Peer Group	N/A	.25%	.49%	.65%	.95%

Liquidity and Interest Sensitivity

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

First Merchants Corporation's liquidity and interest sensitivity position at June 30, 1995, 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 June 30, 1995 (table dollar amounts in thousands).

Interest-Rate Sensitivity Analysis

At June 30, 1995

	1-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
Rate-sensitive assets:					
Federal funds sold and interest-bearing time deposits	$ 40,319				$ 40,319
Investment Securities	38,211	$ 22,445	$119,596	$ 13,652	193,904
Loans	233,528	38,910	96,437	50,413	419,288
Total rate-sensitive assets	312,058	61,355	216,033	64,065	653,511
Rate-sensitive liabilities:					
Interest-bearing deposits	209,424	43,845	223,179	55	476,503
Other borrowed funds	51,874	1,000			52,874
Total rate-sensitive liabilities	261,298	44,845	223,179	55	529,377
Interest rate sensitivity gap by period	$ 50,760	$ 16,510	$ (7,146)	$ 64,010	
Cumulative gap	50,760	67,270	60,124	124,134	
Cumulative ratio at June 30, 1995	119%	122%	111%	123%	
Cumulative ratio at December 31, 1994	106%	121%	114%	125%	

EARNING ASSETS

Earning assets declined $ .8 million during 1994 but increased $ 69.3 million during the first half of 1995. Growth over the eighteen month period occurred primarily in loans and short term investments with securities declining.

The following table presents the earning asset mix for the years ended 1993, 1994 and at June 30, 1995 (table dollar amounts in millions.)

	Earning Assets		
	June 30, 1995	December 31, 1994	December 31, 1993
Federal funds sold and interest-bearing time deposits	$ 40.3	$ 3.7	$ 1.9
Securities available for sale.	118.1	99.3	
Securities held to maturity	73.9	77.7	204.3
Federal Reserve and Federal Home Loan Bank stock	1.9	1.9	1.9
Loans.	419.3	401.6	376.9
Total	$ 653.5	$ 584.2	$ 585.0

DEPOSITS AND BORROWINGS

The following tables present the level of deposits and short term borrowings (Federal funds purchased, repurchase agreements with customers, and U.S. Treasury demand notes) based on period end levels and average daily balances for the past two years and most recent quarter (table dollar amounts in millions).

	Period End Balance	
	Deposits	Short-term Borrowings
June 30, 1995 . . .	$ 562.2	$ 52.9
December 31, 1994 .	529.8	39.2
December 31, 1993 .	506.3	46.9

	Average Balances	
	Deposits	Short-term Borrowings
June 30, 1995. . .	$ 526.2	$ 39.8
December 31, 1994.	514.0	45.6
December 31, 1993.	517.8	35.3

Net Interest Income

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

The table below presents the Corporation's interest income, interest expense, and net interest income on a fully taxable equivalent basis (FTE) as a per cent of average earning assets for the four-year period ending in 1994 and the first half of 1995 (table dollar amounts 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 (FTE)
1995 (1)	8.09%	3.32%	4.77%	$608,164	$29,157
1994	7.44	2.70	4.74	597,102	28,282
1993	7.38	2.81	4.57	587,009	26,806
1992	8.31	3.65	4.66	566,467	26,400
1991	9.48	5.05	4.43	525,799	23,277

(1) First six months annualized

Asset yields improved slightly in 1994 (.06 per cent), while interest expense declined 11 basis points. The resulting "spread" increase of .17 per cent (4.74% vs 4.57%) accounted for approximately two-thirds of the $1,476,000 increase in net interest income (FTE). The remaining increase is attributable to growth in average earning assets of $10,093,000.

During the first half of 1995, interest income (FTE) as a per cent of average earning assets increased .65 per cent while interest expense as a per cent of average earning assets grew by just .62 per cent. Consequently, net interest income (FTE) as a per cent of average earning assets grew .03 per cent, contributing to the increase in net interest income (FTE-annualized.) Most of the increase in net interest income (FTE) is due to growth in average assets of just over $11 million.

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

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 declined in 1994 by $290,000, or 4.4 per cent. The decline is attributable to two factors:

1. Loss on the sale of securities of $31,000 compared to gains of $395,000 in 1993, a change of $426,000.
2. A $126,000 (5.0 per cent) decline in deposit service charges.

The first factor is not relevant to the underlying fee income potential of the Corporation. Without that change, fee income would have increased from $6,194,000 to $6,329,000 (2.2 per cent).

During the first half of 1995, other income equalled $3,211,000, or 2.3 per cent above the first half 1994 level of $3,140,000. Trust revenues grew $40,000, or 3.2 per cent while service charges on deposits were up by $21,000 accounting for most of the $71,000 improvement in other income. Securities losses totaled $66,000 as compared to securities gains in 1994 of $11,000.

Other Expense

Total "other expenses" represent non-interest operating expenses of the Corporation. Those expenses amounted to $18,434,000 in 1994, an increase of $219,000 or 1.2 per cent from the prior year. Most of the change in 1994 is attributable to two factors:

1. During the fourth quarter of 1993, First Merchants Bank, N.A. assumed responsibility for the data processing function for the Corporation and its subsidiaries. The agreement with an outside party to provide data processing was terminated. The cost of conversion equipment and software was approximately $1,700,000. The equipment and software costs are being depreciated on a straight-line method based on useful life of the assets. The Corporation estimates that data processing costs under the new arrangement declined by approximately $400,000 (net of additional salary, employee benefit, equipment, and software costs.)

2. Salary and benefit expense increased by $928,000 or 10.2 per cent. About one-fourth of that increase is attributable to the change in data processing (described above). The rest is attributable to normal salary increases and key additions to staff.

During the first six months of 1995 other expenses were $9,303,000, up $393,000 or 4.4 per cent from the same period in 1994. Salary and benefit expenses grew $392,000, 8.1 per cent, accounting for most of the increase. Also affecting expenses for the first half of 1995 was a refund from the State of Indiana for intangible taxes paid in 1988 and 1989. The refund served to reduce "other expense" by $238,000.

Income Taxes

The increase in 1994 tax expense was attributable to a $1,198,000 increase in pre-tax net income.

During the first six months of 1995, income tax expense grew $170,000 from the same period one year earlier, also due to a $484,000 increase in pre-tax net income.

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

	Six Months Ended June 30,		Twelve Months Ended December 31,	
	1995	1994	1994	1993
Federal taxes. . . .	$ 1,976	$ 1,835	$ 3,735	$ 3,272
State taxes.	619	590	1,172	1,124
Total	$ 2,595	$ 2,425	$ 4,907	$ 4,396

Inflation

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

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

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) No exhibits are required to be filed.

(b) No reports were filed on Form 8-K during the quarter ended June 30, 1995.

FIRST MERCHANTS CORPORATION

FORM 10-Q

SIGNATURES

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

First Merchants Corporation
(Registrant)

Date August 10, 1995 by /s/ Stefan S. Anderson
Stefan S. Anderson
President and Director

Date August 10, 1995 by /s/ James L. Thrash
James L. Thrash
Chief Financial & Principal
Accounting Officer

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This schedule contains summary financial information extracted from the
consolidated condensed Balance Sheet and Consolidated Condensed Statement of
Income found on page 3 and 4 of the Company's Form 10-Q for the Year-To-Date,
and is Qualified in its entirety by reference to such Financial Statements.

1,000

6-MOS
DEC-31-1995
JAN-01-1995
JUN-30-1995
26,154
69
40,250
0
118,086
73,926
73,974
419,288
5,096
697,206
562,228
52,874
3,790
0
421
0
0
76,205
697,206
18,407
5,296
320
24,023
9,002
10,096
13,927
320
(66)
9,303
7,515
4,920
0
0
4,920
1.46
1.46
0
0
0
0
0
0
0
0
0
0
0
0