

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, 1999

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 July 27, 1999, there were outstanding 12,042,376 common shares,  
without par value, of the registrant.

The exhibit index appears on page 2.

This report including the cover page contains a total of 22 pages.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CONSOLIDATED CONDENSED BALANCE SHEET

(Dollars in thousands, except per share amounts)

(Unaudited)

	June 30, 1999	December 31, 1998
	-----	-----
<b>ASSETS:</b>		
Cash and due from banks	\$ 35,948	\$ 35,474
Federal funds sold	32,500	45,295
	-----	-----
Cash and cash equivalents	68,448	80,769
Interest-bearing deposits	791	1,008
Investment securities available for sale	359,050	329,508
Investment securities held to maturity	17,055	21,709
Mortgage loans held for sale	66	776
Loans	920,824	890,356
Less: Allowance for loan losses	(9,858)	(9,209)
	-----	-----
Net loans	910,966	881,147
Premises and equipment	19,951	18,963
Federal Reserve and Federal Home Loan Bank stock	4,964	4,455
Interest receivable	11,143	10,797
Core deposit intangibles and goodwill	3,013	3,141
Others assets	12,368	10,254
	-----	-----
Total assets	\$ 1,407,815	\$ 1,362,527
	=====	=====
<b>LIABILITIES:</b>		
Deposits:		
Noninterest-bearing	\$ 134,268	\$ 139,469
Interest-bearing	957,221	946,483
	-----	-----
Total deposits	1,091,489	1,085,952
Borrowings	151,175	113,702
Interest payable	4,370	4,134
Other liabilities	5,341	4,848
	-----	-----
Total liabilities	1,252,375	1,208,636
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, no-par value:		
Authorized and unissued -- 500,000 shares		
Common stock, \$.125 stated value:		
Authorized --- 50,000,000 shares		
Issued and outstanding -- 12,013,265 and 11,975,955 shares	1,502	1,497
Additional paid-in capital	31,381	31,264
Retained earnings	123,754	118,919
Accumulated other comprehensive income (loss)	(1,197)	2,211
	-----	-----
Total stockholders' equity	155,440	153,891
	-----	-----
Total liabilities and stockholders' equity	\$ 1,407,815	\$ 1,362,527
	=====	=====

See notes to consolidated condensed financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Interest Income:				
Loans receivable				
Taxable	\$19,204	\$18,832	\$37,784	\$37,215
Tax exempt	59	62	112	123
Investment securities:				
Taxable	3,994	2,609	7,489	5,127
Tax exempt	1,323	1,202	2,633	2,381
Federal funds sold	198	399	426	621
Deposits with financial institutions	30	8	34	11
Federal Reserve and Federal Home Loan Bank stock	108	97	208	191
Total interest income	24,916	23,209	48,686	45,669
Interest expense:				
Deposits	9,339	10,228	18,680	19,919
Borrowings	2,114	765	3,704	1,583
Total interest expense	11,453	10,993	22,384	21,502
Net Interest Income	13,463	12,216	26,302	24,167
Provision for loan losses	522	504	1,027	1,012
Net Interest Income After Provision for Loan Losses	12,941	11,712	25,275	23,155
Other Income:				
Net realized gains (losses) on sales of available-for-sale securities	142	10	157	55
Other income	3,622	3,053	7,035	5,974
Total other income	3,764	3,063	7,192	6,029
Total other expenses	9,488	7,970	18,178	15,664
Income before income tax	7,217	6,805	14,289	13,520
Income tax expense	2,568	2,391	4,997	4,713
Net Income	\$ 4,649	\$ 4,414	\$ 9,292	\$ 8,807
Per share:				
Net Income:				
Basic	\$ .39	\$ .37	\$ .78	\$ .74
Diluted	.39	.37	.77	.73
Dividends	.20	.16	.37	.32

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME  
(Dollar amounts in thousands)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Net Income	\$ 4,649	\$ 4,414	\$ 9,292	\$ 8,807
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding losses arising during the period, net of income tax of of \$1,902, \$31, \$2,386, \$139	(2,792)	(45)	(3,502)	(204)
Less: Reclassification adjustment for (gains) losses included in net income, net of income tax \$57, \$4, \$63, \$22	(85)	(6)	(94)	(33)
	(2,707)	(39)	(3,408)	(171)
Comprehensive income	\$ 1,942	\$ 4,375	\$ 5,884	\$ 8,636

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CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollar amounts in thousands)

(Unaudited)

	1999	1998
	-----	-----
Balances, January 1	\$153,891	\$141,794
Net income	9,292	8,807
Cash dividends	(4,457)	(3,781)
Net change in accumulated other comprehensive income	(3,408)	(171)
Stock repurchased	(339)	
Stock issued under dividend reinvestment and stock purchase plan	338	329
Stock options exercised	123	247
	-----	-----
Balances, June 30	\$155,440	\$147,225
	=====	=====

See notes to consolidated condensed financial statements

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CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS

(Dollar amounts in thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	1999	1998
	-----	-----
Cash Flows From Operating Activities:		
Net income	\$9,292	\$8,807
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	1,027	1,012
Depreciation and amortization	1,379	1,256
Securities amortization, net	176	135
Securities losses (gains), net	(157)	(55)
Mortgage loans originated for sale	(4,837)	(3,551)
Proceeds from sales of mortgage loans	5,547	3,819
Change in interest receivable	(346)	157
Change in interest payable	236	140
Other adjustments	589	(806)
	-----	-----
Net cash provided by operating activities	12,906	10,914
	-----	-----
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	217	89
Purchases of		
Securities available for sale	(127,380)	(58,708)
Securities held to maturity		(90)
Proceeds from maturities of		
Securities available for sale	78,635	39,288
Securities held to maturity	4,552	8,562
Proceeds from sales of		
Securities available for sale	13,692	2,284
Net change in loans	(30,846)	(24,572)
Purchases of premises and equipment	(2,311)	(3,486)
Other investing activities	(461)	(1,645)
	-----	-----
Net cash provided by investing activities	(63,902)	(38,278)
	-----	-----

(continued)

FIRST MERCHANTS CORPORATION  
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 CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS  
 (Dollar amounts in thousands)  
 (Unaudited)

	Nine Months Ended June 30,	
	1999	1998
	-----	-----
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	\$ (5,201)	\$ 9,449
Certificates of deposit and other time deposits	10,738	40,670
Borrowings	37,473	11,893
Cash dividends	(4,457)	(3,781)
Stock issued under dividend reinvestment and stock purchase plan	338	329
Stock options exercised	123	247
Stock repurchased	(339)	
	-----	-----
Net cash provided by financing activities	38,675	58,807
	-----	-----
Net Change in Cash and Cash Equivalents	(12,321)	31,443
Cash and Cash Equivalents, January 1	80,769	43,720
	-----	-----
Cash and Cash Equivalents, June 30	\$ 68,448	\$ 75,163
	=====	=====

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 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.

NOTE 2. Change in Methods of Accounting or Adoption of Accounting Pronouncements

Accounting for Derivative Instruments and Hedging Activities - During 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement requires companies to record derivatives on the balance sheet at their fair value. Statement No. 133 also acknowledges that the method of recording a gain or loss depends on the use of the derivative.

The new Statement applies to all entities. If hedge accounting is elected by the entity, the method of assessing the effectiveness of the hedging derivative and the measurement approach of determining the hedge's ineffectiveness must be established at the inception of the hedge.

Statement No. 133 amends Statement No. 52 and supersedes Statements No. 80, 105, and 119. Statement No. 107 is amended to include the disclosure provisions about the concentrations of credit risk for Statement No. 105. Several Emerging Issues Task Force consensuses are also changed or nullified by the provisions of Statement No. 133.



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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Table dollar amounts in thousands)  
(Unaudited)

Statement No. 133 will be effective for all fiscal years beginning after June 15, 1999. The Statement may not be applied retroactively to financial statements of prior periods. The adoption of this Statement will have no material impact on the Corporation's financial condition or result of operations.

ACCOUNTING FOR MORTGAGE-BACKED SECURITIES RETAINED AFTER THE SECURITIZATION OF MORTGAGE LOANS HELD FOR SALE BY A MORTGAGE BANKING ENTERPRISE -Also in 1998, the FASB issued Statement No. 134, Accounting for Mortgage-Backed Securities Retained After the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise. It establishes accounting standards for certain activities of mortgage banking enterprises and for other enterprises with similar mortgage operations. This Statement amends Statement No. 65.

Statement No. 134, as previously amended by Statements No. 115 and 125, required a mortgage banking enterprise to classify a mortgage-backed security as a trading security following the securitization of the mortgage loan held for sale. This Statement further amends Statement No. 65 to require that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities must classify the resulting mortgage-backed security or other retained interests based on the entity's ability and intent to sell or hold those investments.

The determination of the appropriate classification for securities retained after the securitization of mortgage loans by a mortgage banking enterprise now conforms to Statement No. 115. The only new requirement is that if an entity has a sales commitment in place, the security must be classified into trading.

This Statement is effective for the first fiscal quarter beginning after December 15, 1998. On the date this Statement is initially applied, an entity may reclassify mortgage-backed securities and other beneficial interests retained after the securitization of mortgage loans held for sale from the trading category, except for those with sales commitments in place. Those securities and other interests shall be classified based on the entity's present ability and intent to hold the investments. The adoption of this Statement had no material impact on the Corporation's financial condition and result of operations.

REPORTING ON THE COSTS OF START-UP ACTIVITIES - During 1998, the Accounting Standards Executive Committee (AcSEC) issued Statement of Position 98-5, Reporting on the Costs of Start-Up Activities. Statement of Position 98-5 will affect all non-governmental entities, including not-for-profits, reporting start-up costs in their financial statements.

Some existing industry practices result in the capitalization and amortization of start-up costs. This Statement of Position requires that start-up activities and organizational costs associated with both development stage and established operating entities.

According to Statement of Position 98-5, start-up activities are "those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer or beneficiary, initiating a new process in an existing facility, or commencing some new operation. Start-up activities include activities related to organizing a new entity (commonly referred to as organizational costs.)"

Statement of Position 98-5 is effective for fiscal years beginning on or after December 15, 1998. Earlier application is encouraged in fiscal years during which annual financial statements have not yet been issued. The adoption of this Statement did not have a material impact on the Corporation's financial condition or result of operations.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollar amounts in thousands)

(Unaudited)

NOTE 3. ACQUISITIONS

On April 1, 1999, the Corporation issued 1,098,795 shares of its common stock in exchange for all of the outstanding shares of Jay Financial Corporation Portland, Indiana. At December 31, 1998, Jay Financial Corporation had total assets and shareholders' equity of \$114,895,000 and \$14,903,000, respectively. The transaction will be accounted for under the pooling-of-interests method of accounting.

On April 21, 1999, the Corporation issued 810,642 shares of its common stock in exchange for all of the outstanding shares of Anderson Community Bank, Anderson, Indiana. At December 31, 1998, Anderson Community Bank had total assets and shareholders' equity of \$77,984,000 and \$7,740,000, respectively. The transaction will be accounted for under the pooling-of-interests method of accounting.

The financial information contained herein reflects the merger and reports the financial condition and results of operations as though the Corporation had been combined as of January 1, 1998. Separate operating results of Jay Financial Corporation and Anderson Community Bank for the periods prior to the merger were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Net interest income:				
First Merchants Corporation	\$13,201	\$10,305	\$22,912	\$20,457
Jay Financial Corporation		1,138	2,250	2,250
Anderson Community Bank	262	773	1,140	1,460
Combined	\$13,463	\$12,216	\$26,302	\$24,167
Net income:				
First Merchants Corporation	\$ 4,548	\$ 3,798	\$ 8,138	\$ 7,622
Jay Financial Corporation		362	703	703
Anderson Community Bank	101	254	451	482
Combined	\$ 4,649	\$ 4,414	\$ 9,292	\$ 8,807
Diluted net incomer per share:				
First Merchants Corporation	\$ .38	\$ .32	\$ .67	\$ .63
Jay Financial Corporation		.03	.06	.06
Anderson Community Bank	.01	.02	.04	.04
Combined	\$ .39	\$ .37	\$ .77	\$ .73

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## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollar amounts in thousands)

(Unaudited)

## NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	-----	-----	-----	-----
Available for sale at June 30, 1999:				
U.S. Treasury	\$ 14,609	\$ 25	\$ 31	\$ 14,603
Federal agencies	62,690	49	555	62,184
State and municipal	99,697	1,005	469	100,233
Mortgage-backed securities	150,272	160	1,384	149,048
Other asset-backed securities	22,553	1	478	22,076
Corporate obligations	9,853	33	42	9,844
Marketable equity security	1,200		138	1,062
	-----	-----	-----	-----
Total available for sale	360,874	1,273	3,097	359,050
	-----	-----	-----	-----
Held to maturity at June 30, 1999:				
U.S. Treasury	250			250
Federal agencies	427		1	426
State and municipal	15,256	168		15,424
Mortgage-backed securities	486	3		489
Other asset-backed securities	636		60	576
	-----	-----	-----	-----
Total held to maturity	17,055	171	61	17,165
	-----	-----	-----	-----
Total investment securities	\$ 377,929	\$ 1,444	\$ 3,158	\$ 376,215
	=====	=====	=====	=====

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
 (Table dollar amounts in thousands)  
 (Unaudited)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	-----	-----	-----	-----
Available for sale at December 31, 1998:				
U.S. Treasury	\$ 22,275	\$ 120	\$	\$ 22,395
Federal agencies	61,605	627	32	62,200
State and municipal	93,198	2,778	21	95,955
Mortgage-backed securities	128,610	440	198	128,852
Other asset-backed securities	265	1	11	255
Corporate obligations	18,624	143	8	18,759
Marketable equity securities	1,200		108	1,092
	-----	-----	-----	-----
Total available for sale	325,777	4,109	378	329,508
	-----	-----	-----	-----
Held to maturity at December 31, 1998:				
U.S. Treasury	249	4		253
Federal agencies	500	1		501
State and municipal	18,335	370	1	18,704
Mortgage-backed securities	864	3		867
Other asset-backed securities	1,761	2	27	1,736
	-----	-----	-----	-----
Total held to maturity	21,709	380	28	22,061
	-----	-----	-----	-----
Total investment securities	\$ 347,486	\$ 4,489	\$ 406	\$ 351,569
	=====	=====	=====	=====



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	Six Months Ended June 30,					
	1999			1998		
	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	\$ 9,292	11,989,955	\$ .78 =====	\$ 8,807	11,890,044	\$ .74 =====
Effect of dilutive stock options		108,551			190,147	
Net income available to common stockholders and assumed conversions	\$ 9,292 =====	12,098,506 =====	\$ .77 =====	\$ 8,807 =====	12,080,191 =====	\$ .73 =====

## 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.

## FORWARD-LOOKING STATEMENTS

Congress passed the Private Securities Litigation Report Act of 1995 to encourage corporations to provide investors with information about the company's anticipated future financial performance, goals, and strategies. The act anticipated future financial performance, goals, and strategies. The act provides a safe harbor for such disclosure, or in other words, protection from unwarranted litigation if actual results are not the same as management's expectations.

First Merchants Corporation desires to provide its shareholders with sound information about past performance and future trends. Consequently, this Quarterly Report, including Management's Discussion and Analysis of financial Condition and Results of Operations, contains forward-looking statements that are subject to numerous assumptions, risks, and uncertainties. Actual results could differ materially from those contained in or implied by First Merchants Corporation's statements due to a variety of factors including: changes in economic conditions; movements in interest rates; competitive pressures on product pricing and services; success and timing of business strategies; the successful integration of acquired businesses; the nature and extent of governmental actions and reform; and extended disruption of vital infrastructure. The management of First Merchants Corporation encourages readers of this report to understand forward-looking statements to be strategic objectives rather than absolute targets of future performance.

## RESULTS OF OPERATIONS

Net income for the three months ended June 30, 1999, was \$4,649,000, compared to \$4,393,000 earned in the same period of 1998, an increase of 5.8 percent. Diluted net income per share was \$.39 for the three months ended June 30, 1999, compared to \$.37 for the three months ended June 30, 1998, an increase of 5.4 percent.

Net income for the first six months of 1999 was \$9,292,000 compared to \$8,807,000 earned in the same period of 1998, an increase of 5.5 percent. Diluted net income per share was \$.77 and \$.73 for the six months ended June 30, 1999 and 1998, respectively, an increase of 5.4 percent.

The increase in earnings was primarily due to growth in earning assets and non-interest income. Net interest income increased \$2,135,000 or 8.8 percent over the first six months of 1998 due to growth in earning assets of 12.7 percent. Noninterest income increased \$1,163,000 or 19.3 percent over the first six months of 1998 due primarily to increased revenues from fiduciary activities and commission income.

Annualized returns on average assets and average shareholder's equity for quarter ended June 30, 1999 were 1.34 percent and 11.94 percent, respectively, compared with 1.43 percent and 12.08 percent for the same period of 1998. For the six months ended June 30, 1999, annualized returns on average assets and shareholder's equity were 1.37 percent and 11.97 percent, respectively, compared to 1.46 percent and 12.17 percent for the same nine month period in 1998.

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## 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 11.9 percent at year-end 1998 and 11.1 percent at June 30, 1999. At June 30, 1998, the Corporation had a Tier I risk-based capital ratio of 16.4 percent, total risk-based capital ratio of 17.2 percent, and a leverage ratio of 11.1 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

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

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

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

The following table summarizes the risk elements for the Corporation.

(Dollars in Thousands)	June 30, 1999	December 31, 1998	December 31, 1997
Non-accrual loans	\$ 1,526	\$ 1,073	\$ 2,777
Loans contractually past due 90 days or more other than nonaccruing	2,723	2,334	1,699
Restructured loans	960	1,110	1,540
	-----	-----	-----
Total	\$ 5,209 =====	\$ 4,517 =====	\$ 6,016 =====

Impaired loans included in the table above, totaled \$2,391,000 at December 31, 1998. An allowance for losses at December 31, 1998, was not deemed necessary for impaired loans totaling \$7,041,000, but an allowance of \$795,000 was recorded for the remaining balance of impaired loans of \$1,956,000. The average balance of impaired loans for 1997 was \$4,155,000.

At June 30, 1999, the allowance for loan losses increased by \$650,000, to \$9,858,000, up from year end 1998. As a percent of loans, the allowance was 1.07 percent, up from 1.03 percent at year end 1998.

The second quarter 1999 provision of \$522,000 increased from \$504,000 for the same quarter in 1998. Net charge-offs amounted to \$220,000 during the quarter. The provision of \$1,027,000 for the six months ended June 30, 1999 increased \$15,000 from the same period in 1998. Net charge offs amounted to \$378,000 during the first six months of 1998.

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The table below presents loan loss experience for the periods indicated and compares the Corporation's loss experience to that of its peer group, consisting of bank holding companies with assets between \$1 billion and \$3 billion.

	Six Months Ended June 30,		Year Ended December 31,	
	1999	1998	1998	1997
(Dollars in Thousands)				
Allowance for loan losses:				
Balance at beginning of period	\$9,209	\$8,428	\$8,428	\$8,010
Chargeoffs	601	914	2,230	1,949
Recoveries	223	232	639	633
Net chargeoffs	378	682	1,591	1,316
Provision for loan losses	1,027	1,012	2,372	1,734
Balance at end of period	\$9,858	\$8,758	\$9,209	\$8,428
Ratio of net chargeoffs during the period to average loans outstanding during the period	.08%(1)	.15%(1)	.18%	.16%
Peer Group	N/A	N/A	.29%	.26%

(1) First six 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 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.

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.

The Corporation's liquidity and interest sensitivity position at June 30, 1999, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

The Corporation had a cumulative negative gap of \$54,972,000 in the six month horizon at June 30, 1999, or just over 3.9 percent of total assets. Net interest income at a financial institution with a negative gap tends to decrease when rates rise and generally increase as interest rates decline.

The GAP/Interest Rate Sensitive Report is a tool which displays repricing timing differences between interest sensitive assets and liabilities. The 0-180 day Sensitivity Gap Ratio depicts the institution is liability sensitive 89.2 percent.



## FIRST MERCHANTS CORPORATION

## FORM 10-Q

The Corporation places its greatest credence in net interest income simulation modeling. The GAP/Interest Rate Sensitivity Report is known 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.

The Corporation's asset liability process monitors simulated net interest income under three separate interest rate scenarios; rising (rate shock), falling (rate shock) and flat. Net Interest income is simulated over an 18 month horizon. By policy, the difference between the best performing and the worst performing rate scenarios are not allowed to show a variance greater than 5 percent.

Assumed interest rate changes are simulated to move incrementally over 18 months. The total rate movement (beginning point less ending point) to noteworthy interest rate indexes are as follows:

	Rising		Falling	
	-----		-----	
Prime	300	Basis Points	(300)	Basis Points
Federal Funds	300		(300)	
90 Day T-Bill	310		(275)	
One Year T-Bill	290		(270)	
Three Year T-Note	290		(265)	
Five Year T-Note	290		(255)	
Ten Year T-Note	290		(245)	
Interest Checking	100		( 57)	
MMIA Savings	150		(100)	
Money Market Index	315		(220)	
Regular Savings	100		( 57)	

Results for the flat, rising (rate shock), and falling (rate shock) interest rate scenarios are listed below. The net interest income shown represents cumulative net interest income over an 18 month time horizon. Balance sheet assumptions are the same under both scenarios:

	Flat/Base	Rising	Falling
	-----		
Net Interest Income (Dollars in Thousands)	\$79,921	\$78,145	\$77,930
Change vs. Flat/Base Scenario		(1,776)	(1,991)
Percent Change		(2.22%)	(2.49%)

## FIRST MERCHANTS CORPORATION

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## EARNING ASSETS

The following table presents the earning asset mix as of June 30, 1999, and December 31, 1998, and December 31, 1997.

Loans grew by nearly \$30 million from December 31, 1998, to June 30, 1999, while investment securities grew by \$24.6 million during the same period. Commercial and industrial loans increased by more than \$13,000,000, while individuals' loans for household and personal expenditures grew by nearly \$14,000,000.

-----			
EARNING ASSETS			
(Dollars in Millions)	June 30, 1999	December 31, 1998	December 31, 1997
	-----	-----	-----
Federal funds sold and interest-bearing deposits	\$ 32.5	\$ 45.3	\$ 9.5
Investment securities	376.1	351.5	266.8
Mortgage loans held for sale	.1	0.8	0.5
Loans	920.8	891.1	838.7
Federal Reserve and Federal Home Loan Bank stock	5.0	4.5	4.1
	-----	-----	-----
Total	\$ 1,334.5	\$ 1,293.2	\$ 1,079.6
	=====	=====	=====
-----			

## DEPOSITS, SECURITIES SOLD UNDER REPURCHASE AGREEMENTS, FEDERAL FUNDS SOLD AND OTHER SHORT-TERM BORROWING

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 1998 and 1997 and at June 30, 1999.

-----			
(Dollars in Millions)	June 30, 1999	December 31, 1998	December 31, 1997
	-----	-----	-----
Deposits	\$ 1,091.5	\$ 1,086.0	\$ 977.0
Securities sold under repurchase agreements	86.2	48.8	15.4
Federal funds purchased			
and other short-term borrowings	10.8	17.8	13.6
Federal Home Loan Bank advances	54.3	47.1	25.5

The Corporation has continued to leverage its large 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. 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. The effect on the Corporation's capital ratios is minimal as the Corporation remains adequately capitalized.

## FIRST MERCHANTS CORPORATION

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## 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 three months and six months ended June 30, 1999 and 1998.

Net interest income (FTE) for the three months ended June 30, 1999 increased by \$1,305,000, or 10.1 percent over the same period in 1998, due to an increase in earning assets of over nearly \$143 million. For the same period interest income and interest expense, as a percent of average earning assets, declined by .35 and .27 percent respectively, due to lower interest rate and margin compression.

Net Interest income for the six months ended June 30, 1999 increased \$2,258,000, or 8.8 percent over the same period in 1998, due to an increase in earning assets of nearly \$146 million. Net interest income (FTE), as a percent of average earning assets, during the same period declined 15 basis points due primarily to declining interest rates and increased non-deposit funds.

(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	Net Interest Income on a Fully Taxable Equivalent Basis
For the three months ended June 30,					
1999	7.80%	3.48%	4.32%	\$1,315,932	\$ 14,201
1998	8.15	3.75	4.40	1,172,957	12,896
For the six months ended June 30,					
1999	7.78	3.47	4.31	1,289,445	27,773
1998	8.22	3.76	4.46	1,143,750	25,515

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.

FIRST MERCHANTS CORPORATION

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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 second quarter of 1999 exceeded the same quarter in the prior year by \$703,000, or 23.0 percent.

Three major areas account for most of the increase:

1. Service charges on deposit accounts increased by \$214,000 due primarily to increased pricing.
2. Gains on the sale of investment securities is \$132,000 over the second quarter of 1998.
3. Revenues from fiduciary activities grew \$94,000, or 8.7 percent, due to strong new business activity and markets.

Other income for the six months ended June 30, 1999 exceeded the same period in the prior year by \$1,164,000, or 19.3 percent.

Five major areas account for most of the increase:

1. Commission income increased \$343,000, due to the acquisition of First Merchants Insurance Services, Inc., on April 1, 1998.
2. Revenues from fiduciary activities grew \$261,000, or 12.9 percent, due to strong new business activity and markets.
3. Other customer fees increased \$182,000, or 14.2 percent, due to an increased ATM network, increased sales volume of personal money order agent fees, and increased pricing.
4. Service charges on deposit accounts increased \$179,000, or 9.5 percent due to increased pricing.
5. Gains on the sale of investment securities is \$102,000 over the first six months of 1998.

OTHER EXPENSE

Total "other expenses" represent non-interest operating expenses of the Corporation. Second quarter other expense in 1999 exceeded the same quarter of the prior year by \$1,520,000, or 19.0 percent.

Two major areas account for most of the increase:

1. Merger related costs of \$648,000 resulted from the acquisitions of Jay Financial Corporation and Anderson Community Bank in April 1999.
2. Salaries and benefit expense grew \$483,000, or 11.0 percent, due to normal salary increases and staff additions.

Total "other expenses" represent non-interest operating expenses of the Corporation. Other expenses for the six month period ended June 30, 1999 exceeded the same period of the prior year by \$2,515,000, or 16.1 percent.

Five major areas account for most of the increase:

1. Salaries and benefit expense grew \$1,155,000, or 13.4 percent, due to normal salary increases and staff additions.
2. Merger related costs of \$648,000 resulted from the acquisitions of Jay Financial Corporation and Anderson Community Bank in April 1999.
3. Equipment expense increased \$164,000, or 10.7 percent, reflecting the Corporation's efforts to improve efficiency and provide electronic service delivery to its customers.
4. Computer processing expense increased by \$133,000, or 19.5 percent.
5. Net occupancy expense increased by \$110,000, or 11.20 percent, due to increased expansion.

FIRST MERCHANTS CORPORATION

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INCOME TAXES

Income tax expense, for the three months ended June 30, 1999, increased by \$177,000 over the same period in 1998, due to a \$413,000 increase in pre-tax net income, mitigated somewhat by a \$119,000 increase in tax-exempt income. Likewise, the increase of \$284,000 for the six months ended June 30, 1999, as compared to the same period in 1998, results from a \$769,000 increase in pre-tax net income, mitigated somewhat by a \$242,000 increase in tax exempt income.

YEAR 2000

The Corporation has conducted a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 Issue and has developed an implementation plan to resolve the issue. The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Corporation's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations. The Corporation is utilizing both internal and external resources to identify, correct and test the systems for the Year 2000 compliance. The Corporation began the testing phase during the third quarter of 1998. Core application testing was completed as of June 30, 1999.

The Corporation has contacted the companies that supply or service its material operations to certify that their respective computer systems are Year 2000 compliant. In addition to possible expenses related to the Corporation's systems and those of the Corporation's service providers, the Corporation could incur losses if Year 2000 problems affect any of its depositors or borrowers. Such problems could include delayed loan payments, due to Year 2000 problems affecting any of its significant borrowers or impairing the payroll systems of large employers in its market area. Because the Corporation's loan portfolio to corporate and individual borrowers is diversified and its market area does not depend significantly upon one employer or industry, the Corporation does not expect any such Year 2000 related difficulties that may affect its depositors and borrowers to significantly affect its net earnings or cash flows.

The Board of Directors reviews, on a quarterly basis, the progress in addressing Year 2000 issues. The Corporation believes that its costs related to upgrading systems and software for Year 2000 compliance will not exceed \$1,025,000. As of June 30, 1999, the Corporation has spent approximately \$860,000 in connection with Year 2000 compliance. Of the \$860,000, approximately \$650,000 has been capitalized as the Corporation replaced and upgraded non-compliant systems. Although the Corporation believes it is taking the necessary steps to address the Year 2000 compliance issue, no assurances can be given that some problems will not occur or that the Corporation will not incur significant additional expenses in future periods.

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 under the heading Liquidity, Interest Sensitivity, and Disclosures About Market Risk.

FIRST MERCHANTS CORPORATION

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PART II. OTHER INFORMATION

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

At the April 14, 1999 Annual Meeting of Shareholders, the following matters were submitted to a vote of the shareholders.

Election of Directors - The following directors were elected for a term of three years.

	Vote Count		
	For	Against	Abstained
Stefan S. Anderson	9,175,518.25	70,828.30	68,839.00
David A. Galliher	9,240,725.25	5,621.30	68,839.00
Thomas B. Clark	9,216,623.53	29,723.03	68,839.00
John E. Worthen	9,167,819.39	78,527.16	68,839.00

Approval of the First Merchants Corporation 1999 Long-Term Equity Incentive Plan described in the Proxy Statement dated February 24, 1999: Votes For - 7,593,423.19, Votes Against - 970,830.27, Votes Abstained - 56,127.10.

Selection of Independent Public Accountants - Olive, LLP, Indianapolis, Indiana: Votes For - 9,344,772.42, Votes Against - 65,743.67, Votes Abstained - 23,690.46.

Approval of the First Merchants Corporation 1999 Employee Stock Purchase Plan described in the Proxy Statement dated February 24, 1999: Votes For - 8,279,128.6, Votes Against - 279,540.96, Votes Abstained - 62,710.93.

Approval to amend the Corporation's Articles of Incorporation to increase the number of shares of common stock which the corporation is authorized to issue, from 20,000,000 shares to 50,000,000 shares: Votes For - 8,567,238.69, Votes Against - 812,794.26, Votes Abstained - 54,173.60.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit No.:	Description of Exhibit:
3.1	Amendments to Articles of Incorporation
10.1	Change of Control Agreements
10.2	Change of Control Agreements
27	Financial Data Schedule, Period Ending June 30, 1999

(b) Reports on Form 8-K:

None

FIRST MERCHANTS CORPORATION

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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 11, 1999 by /s/ Michael L. Cox  
-----  
Michael L. Cox  
President and Director

Date August 11, 1999 by /s/ James L. Thrash  
-----  
James L. Thrash  
Chief Financial & Principal  
Accounting Officer





ARTICLES OF INCORPORATION  
OF  
FIRST MERCHANTS CORPORATION

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

ARTICLE I

NAME

The name of the Corporation is First Merchants Corporation.

ARTICLE II

PURPOSES

The purposes for which the Corporation is formed are:

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

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

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

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

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

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

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

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

#### ARTICLE III

##### PERIOD OF EXISTENCE

The period during which the Corporation shall continue is perpetual.

#### ARTICLE IV

##### RESIDENT AGENT AND PRINCIPAL OFFICE

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

Larry R. Helms  
200 East Jackson Street  
Muncie, IN 47305

SECTION 2. PRINCIPAL OFFICE. The post office address of the principal office of the Corporation is:

200 East Jackson Street  
Muncie, IN 47305

#### ARTICLE V

##### AUTHORIZED SHARES

SECTION 1. NUMBER OF SHARES. The total number of shares of common stock which the Corporation is to have authority to issue is 50,000,000, all with no par value. The total number of shares of preferred stock the Corporation is to have authority to issue is 500,000, all with no par value.

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

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

#### ARTICLE VI

##### REQUIREMENTS PRIOR TO DOING BUSINESS

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

#### ARTICLE VII

##### DIRECTORS

SECTION 1. NUMBER. The number of Directors of the Corporation shall not be less than nine (9) nor more than twenty-one (21), as may be specified from time to time by the Bylaws. If and whenever the Bylaws do not contain a provision specifying the number of Directors, the number shall be sixteen (16). The Directors shall be classified, with respect to the time for which they

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

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

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

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

ARTICLE VIII

INCORPORATOR(S)

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

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

ARTICLE IX

PROVISIONS FOR REGULATION OF BUSINESS  
AND CONDUCT OF AFFAIRS OF CORPORATION

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

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

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

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

The Board of Directors may, by resolution adopted by a majority of the actual number of Directors elected and qualified, from time to time, designate from among its members an executive committee and one or more other committees, each of which, to the extent provided in the resolution, the Articles of Incorporation, or the Bylaws, may exercise all of the authority of the Board of Directors of the Corporation, including, but not limited to, the authority to issue and sell or approve any contract to issue and sell, securities or shares of the Corporation or designate the terms of a series of a class of securities or shares of the Corporation. The terms which may be affixed by each such committee include, but are not limited to, the price, dividend rate, and provisions of redemption, a sinking fund, conversion, voting or preferential rights or other features of securities or class or series of a class of shares. Each such committee may have full power to adopt a final resolution which sets forth those terms and to authorize a statement of such terms to be filed with the Secretary of State. However, no such committee has the authority to declare dividends or distributions, amend the Articles of Incorporation or the Bylaws, approve a plan of merger or consolidation even if such plan does not require shareholder approval, reduce earned or capital surplus, authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors, or recommend to the shareholders a voluntary dissolution of the Corporation or a revocation thereof. No member of any such committee shall continue to be a member thereof after he ceases to be a Director of the Corporation. The calling and

holding of meetings of any such committee and its method of procedure shall be determined by the Board of Directors. A member of the Board of Directors shall not be liable for any action taken by any such committee if he is not a member of that committee and has acted in good faith and in a manner he reasonably believes is in the best interest of the Corporation.

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

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

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

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

SECTION 8. INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS. Every person who is or was a Director, officer, employee or agent of this Corporation or of any other corporation for which he is or was serving in any capacity at the request of this Corporation shall be indemnified by this Corporation against any and all liability and expense that may be incurred by him in connection with or resulting from or arising out of any claim, action, suit or proceeding,

provided that such person is wholly successful with respect thereto or acted in good faith in what he reasonably believed to be in or not opposed to the best interest of this Corporation or such other corporation, as the case may be, and, in addition, in any criminal action or proceeding in which he had no reasonable cause to believe that his conduct was unlawful. As used herein, "claim, action, suit or proceeding" shall include any claim, action, suit or proceeding (whether brought by or in the right of this Corporation or such other corporation or otherwise), civil, criminal, administrative or investigative, whether actual or threatened or in connection with an appeal relating thereto, in which a Director, officer, employee or agent of this Corporation may become involved, as a party or otherwise,

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

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

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

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

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

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

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

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

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

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

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

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

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



1. Any merger or consolidation of the Corporation or its subsidiary or subsidiaries (as hereinafter defined) with or into either of the following:

(a) 10% Shareholders (as hereinafter defined); or

(b) Any other corporation (whether or not itself a 10% Shareholder) which, after such merger or consolidation, would be an Affiliate (as hereinafter defined) of a 10% Shareholder.

2. Any sale, lease, exchange, transfer or other disposition (including, without limitation, the granting of a mortgage or other security interest) to or with any 10% Shareholder of any material part of the assets of the Corporation or any of its subsidiaries; and

3. A liquidation or dissolution of the Corporation or any material subsidiary thereof or adoption of any plan with respect thereto.

4. Any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its subsidiaries or any other transaction (whether or not with or into or otherwise involving a 10% Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the Corporation or any subsidiary which is directly or indirectly owned by any 10% Shareholder; and

5. Any agreement, contract or other arrangement providing for any one or more of the actions specified in the foregoing clauses (A)1. through (A)4.

(B) Prior to the approval of any of the transactions referred to in subsection (A) of this section ("Business Combination"), the Board of Directors of the Corporation shall make an evaluation of all relevant factors and issues arising out of or in connection with any such Business Combination and shall report to the shareholders the conclusion which the Board of Directors reaches from such evaluation. Relevant factors and issues shall include consideration of the impact which any such Business Combination will have on the community in which the Corporation or its subsidiaries conducts business, the employees of the Corporation or any of its subsidiaries, and the suppliers and customers of the Corporation and its subsidiaries, and shall also include any and all other factors which the Board of Directors in its discretion deems relevant.

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

1. "10% Shareholder" shall mean, in respect of any Business Combination, any person (other than the Corporation) who or which, as of the record date for the determination of shareholders entitled to notice of and to vote on such

Business Combination or immediately prior to the consummation of any such Business Combination:

- (a) Is the beneficial owner (as determined in accordance with Rule 13d-3 promulgated by the Securities and Exchange Commission) ("Beneficial Owner"), directly or indirectly, of not less than ten percent (10%) of the Voting Shares; or
  - (b) Is an Affiliate (as hereinafter defined) of the Corporation and at any time within two years prior thereto was the Beneficial Owner, directly or indirectly, of not less than ten percent (10%) of the then outstanding Voting Shares; or
  - (c) Any individual, corporation, partnership or other person or entity which, together with any of its Affiliates (as hereinafter defined), beneficially owns in the aggregate more than ten percent (10%) of the Voting Shares of the Corporation.
2. "Voting Shares" includes:
- (a) Any securities of the Corporation which are entitled to vote on any matter referred to in this Section;
  - (b) Any securities, including but not limited to, preferred stock, bonds, debentures, or options, which can be converted into voting securities at the time of the vote referred to in this Section; and
  - (c) Security agreements of any nature for which voting securities are pledged as collateral.
3. "Affiliate" shall include all persons who would be defined as affiliates under Rule 12b-2 under the Securities Exchange Act of 1934.
4. "Subsidiary" means any corporation of which a majority of any class of equity securities (as defined in Rule 3a 11-1 of the general rules and regulations under the Securities Exchange Act of 1934) are owned, directly or indirectly, by the Corporation; provided, however, that for the purposes of the definition of a 10% Shareholder set forth above, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.
5. "Fair Market Value" means:

- (1) In the case of stock, in the absence of any determination price as established on a national, regional, or local exchange or over-the-counter market, or in the absence of any market-maker dealing in the stock on a regular basis, the fair market value of such stock on the date in question as determined by the Board in good faith; and
  - (2) In the case of property other than cash or stock, the fair market value of such property on the date in question as determined by the Board in good faith.
- (D) The additional voting requirement set forth in subsection (A) above shall not be applicable, and any such Business Combination shall require the affirmative vote of two-thirds (2/3) of the Voting Shares, if one of the following occurs:
1. The Business Combination shall have been approved by two-thirds (2/3) of the Directors of the Corporation; or
  2. All of the following conditions shall have been met:
    - (a) The aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the greater of (i) and (ii), where (i) is the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the 10% Shareholder or any other party for any shares of Common Stock acquired within the two-year period immediately prior to the first public announcement of the proposal of the Business Combination (the "Announcement Date") or, if higher, the per share price paid in the transaction in which the 10% Shareholder became a 10% Shareholder, and (ii) is the per share book value of the Corporation reported at the end of the fiscal quarter immediately preceding the later of any public announcement of any proposed Business Combination or the meeting date on which the shareholders are to consider the proposed Business Combination;
    - (b) The consideration to be received by holders of a particular class of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as the 10% Shareholder has previously paid for shares of such class of Voting Stock. If the 10% Shareholder has paid for shares of any class of Voting Stock with varying forms of consideration, the form of consideration for such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class of Voting Stock previously acquired by it;

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

#### ARTICLE X

##### AMENDMENTS

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

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



CHANGE OF CONTROL AGREEMENT

This Agreement is made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 1999, 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"), a wholly-owned subsidiary of the Corporation, both with their principal offices located at 200 East Jackson Street, Muncie, Indiana, and \_\_\_\_\_ (hereinafter referred to as "Executive"), of Muncie, Indiana.

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

WHEREAS, the Corporation and the Bank recognize 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 desire 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] [Bank] as \_\_\_\_\_, the Corporation, 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, 1999; provided, however, that commencing on December 31, 1999 and each December 31 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than October 31, 1999 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, is or becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly of securities of the Corporation or the Bank 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 or 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 or the Bank 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 the Bank (or similar transaction) in which no person acquires fifty percent (50%) or more of the combined voting power 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 their 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 by 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 \_\_\_\_\_ (\_\_\_\_) 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 ss.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 ss.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 their business and/or assets as aforesaid which assumes and agrees to perform this Agreement, by operation of law or otherwise.
- B. This Agreement shall inure to the benefit of and be enforceable by the Executive and his personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable to the Executive hereunder had the Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the

devisee, legatee or other designee or, if there is no such designee, to 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 Executive's 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 \_\_\_\_\_, 1999.

"CORPORATION"

"EXECUTIVE"

FIRST MERCHANTS CORPORATION

By \_\_\_\_\_  
Stefan S. Anderson,  
Chairman of the Board

By \_\_\_\_\_

"BANK"

FIRST MERCHANTS BANK, NATIONAL ASSOCIATION

By \_\_\_\_\_  
Stefan S. Anderson,  
Chairman of the Board

SCHEDULE A TO FIRST MERCHANTS CORPORATION  
CHANGE OF CONTROL AGREEMENT

The Corporation's Change of Control Agreement covering Michael L. Cox, Roger W. Gilcrest, Larry R. Helms, Thomas E. Buczek, Jack L. Demaree, James L. Thrash, and Charles R. Phillips are all in the form of Exhibit 10.1 and are substantially identical, with the exception of Section 4 Part B. The multiples of the executives' annual base salaries are as follows: Michael L. Cox 299 percent, Roger W. Gilcrest 200 percent, Thomas E. Buczek 150 percent, Jack L. Demaree 150 percent, Larry R. Helms 150 percent, James L. Thrash 150 percent, and Chuck R. Phillips 150 percent.



CHANGE OF CONTROL AGREEMENT

This Agreement is made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 1999, 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 \_\_\_\_\_ (hereinafter referred to as "Executive"), of Portland, Indiana.

WHEREAS, the Corporation is the parent corporation of The First National Bank of Portland, a national banking association (hereinafter referred to as "Bank"), with its principal office located at 112 West Main Street, Portland, Indiana; and

WHEREAS, Executive is the \_\_\_\_\_ of the Bank; and

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

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

WHEREAS, the Corporation recognizes that if a proposal for a Change of Control, as hereinafter defined, should occur, the uncertainty and questions which may be raised among management may result in the departure or distraction of key management personnel, to the detriment of the Bank, the Corporation, and the Corporation's shareholders; and

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

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

1. TERM OF AGREEMENT.

The Agreement shall continue in effect until \_\_\_\_\_; provided, however, if a Change of Control of the Corporation, as defined in Section 2, shall have occurred during the term of this Agreement, this Agreement shall continue in effect until the earlier of (a) the second anniversary of the Executive's Date of Termination, as defined in Section 2, or (b) Executive's sixty-fifth (65th) birthday.

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 Bank, and a determination of full disability by 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 Executive to have been unable to perform his duties with 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 party hereto, which shall indicate the specific termination provisions of this Agreement relied upon and set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provisions so indicated.

F. RETIREMENT: "Retirement" shall mean termination of employment by Executive in accordance with 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 shall have occurred, 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 Executive, (b) by the

Bank or the Corporation for Cause, or (c) by Executive other than on account of Constructive Termination (as hereinafter defined).

- B. If, following a Change of Control, Executive's employment shall be terminated for Cause, 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 Bank and the Corporation shall have no further obligations under this Agreement. If, following a Change of Control, Executive's employment shall be terminated as a result of death or Disability, compensation to Executive shall be made pursuant to the Bank's then existing policies on death or Disability, and the Bank and the Corporation shall have no further obligations under this Agreement. If, following a Change of Control, Executive's employment is terminated by and at the request of Executive as a result of Retirement, compensation to the Executive shall be made pursuant to the Bank's normal retirement policy generally applicable to its salaried employees at the time of the Change of Control, and the Bank and the Corporation shall have no further obligations under this Agreement.
- C. CONSTRUCTIVE TERMINATION. Executive shall be entitled to terminate his employment upon the occurrence of Constructive Termination. For purposes of this Agreement, "Constructive Termination" shall mean, without Executive's express written consent, the occurrence, after a Change in Control of the Corporation, of any of the following circumstances:
- (1) the assignment to Executive of any duties inconsistent (unless in the nature of a promotion) with the position in the Bank that Executive held immediately prior to the Change in Control of the Corporation, or a significant adverse reduction or alteration in the nature or status of Executive's position, duties or responsibilities or the conditions of Executive's employment from those in effect immediately prior to such Change in Control;
  - (2) a reduction in Executive's annual base salary, as in effect immediately prior to the Change in 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 Bank;
  - (3) the Bank and/or the Corporation requires Executive to be relocated anywhere other than the Bank's offices in Portland, Indiana;
  - (4) the taking of any action to deprive 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 Bank and in accordance with the Bank's normal vacation policy in effect at the time of the Change of Control;

- (5) the failure to continue to provide Executive with benefits substantially similar to those enjoyed by Executive under any of the Bank's life insurance, medical, health and accident, or disability plans in which 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 Bank shall be terminated by Executive on account of Constructive Termination or by the Bank or the Corporation other than for Cause, death, Disability, or Retirement (by and at the request of Executive), then Executive shall be entitled to the benefits provided below:

- A. No later than the fifth day following the Date of Termination, the Bank or the Corporation shall pay to 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 Executive is entitled under any incentive, bonus or other compensation plan of the Bank in effect at the time such payments are due;
- B. The Bank or the Corporation shall pay to Executive an amount in cash, in a lump sum, which, when added to the present value of all other compensation, benefits and payments required to be included in the calculation under ss.280G of the Internal Revenue Code and regulations thereunder, shall equal two hundred ninety-nine percent (299%) of the "base amount," as defined under ss.280G of the Internal Revenue Code; provided, however:
  - (1) the amount payable under this Section 4(B) shall be reduced to the extent necessary to prevent it from constituting a "parachute payment" within the meaning of ss.280G of the Internal Revenue Code; except that the reduction, if any,

(2) the reduction, if any, made pursuant to clause (1) of this Section 4(B) shall not include any benefits payable to Executive under certain benefit plans which were established by the Bank through Bank Compensation Strategies Group prior to March 31, 1999, and previously disclosed to the Corporation, even if such non-inclusion causes the amount payable under this Section 4(B) to constitute a "parachute payment" within the meaning of ss.280G of the Internal Revenue Code;

C. During the period beginning with 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 Bank or the Corporation shall arrange to provide Executive with life, disability, accident and health insurance benefits substantially similar to those which Executive was receiving immediately prior to the Notice of Termination.

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 Executive to compensation from the Corporation in the same amount and on the same terms to which Executive would be entitled hereunder if Executive terminates his employment on account of Constructive Termination following a Change 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, "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 Executive and his personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Executive should die while any amount would still be payable to Executive hereunder had 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 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 Internal Revenue 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. ARBITRATION. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators in Muncie, Indiana in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that 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.

9. 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 canceled.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by its duly authorized officer, and Executive has hereunder subscribed his name, this \_\_\_\_\_ day of \_\_\_\_\_, 1999.

"CORPORATION"

"EXECUTIVE"

FIRST MERCHANTS CORPORATION

By \_\_\_\_\_  
Michael L. Cox, President

By \_\_\_\_\_

SCHEDULE A TO FIRST MERCHANTS CORPORATION  
CHANGE OF CONTROL AGREEMENT

The Corporation's Change of Control Agreement covering Barry Hudson and James A. Meinerding are all in the form of Exhibit 10.2 and are substantially identical with the exception of Section 1. The term of Barry Hudson's agreement is as follows:

The Agreement shall continue in effect until Executive is no longer the Chief Executive Officer of the Bank; provided, however, if a Change of Control of the Corporation, as defined in Section 2, shall have occurred during the term of this Agreement, this Agreement shall continue in effect until the earlier of (a) the second anniversary of the Executive's Date of Termination, as defined in Section 2, or (b) Executive's sixty-fifth (65th) birthday.

The term of James Meinerding's agreement is as follows:

The Agreement shall continue in effect until March 31, 2002, unless Executive's employment with the Bank terminates before that date; provided, however, if a Change of Control of the Corporation, as defined in Section 2, shall have occurred during the term of this Agreement, this Agreement shall continue in effect until the earlier of (a) the second anniversary of the Executive's Date of Termination, as defined in Section 2, or (b) Executive's sixty-fifth (65th) birthday.



6-MOS

	DEC-31-1999	JAN-01-1999	JUN-30-1999
			35,948
	791		
	32,500		
	0		
359,050	17,055		
	17,165		
		920,824	
		9,858	
	1,407,815		
		1,091,489	
		82,480	
	9,710		
		68,696	
	0		
		0	
		1,502	
		153,938	
1,407,815			
	37,896		
	10,122		
	668		
	48,686		
	18,680		
	22,384		
	26,302		
		1,027	
	157		
	18,187		
	14,289		
9,292			
	0		
		0	
		9,292	
		.78	
		.77	
		4.31	
		1,526	
		2,723	
		0	
		0	
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		601	
		223	
		9,858	
	9,858		
	0		
	0		