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 September 30, 1995

Commission File Number 0-17071

FIRST MERCHANTS CORPORATION

(Exact name of registrant as specified in its character)

INDIANA	35-1544218
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

200 EAST JACKSON STREET - MUNCIE, IN	47305-2814
(Address of principal executive office)	(Zip code)

(317) 747-1500

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

Yes X No

As of October 30, 1995, there were outstanding 5,049,873 common shares, without par value, of the registrant.

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART I. FINANCIAL INFORMATION

Item I. FINANCIAL STATEMENTS

CONSOLIDATED CONDENSED BALANCE SHEET

(Dollar in thousands, except per share amounts)

(Unaudited)

	September 30, 1995	December 31, 1994
ASSETS:		
Cash and due from banks	$ 25,849	$ 42,684
Federal funds sold	20,998	3,675
Cash and cash equivalent	46,847	46,359
Interest-bearing time deposits	93	23
Securities available for sale	135,819	99,363
Securities held to maturity (fair value $77,946 and $76,522)	77,698	77,677
Federal Reserve and Federal Home Loan Bank stock	1,892	1,879
Loans:		
Loans, net of unearned interest	407,484	401,605
Less: Allowance for loan losses	5,114	4,998
Net loans	402,370	396,607
Premises and equipment	10,211	9,545
Interest receivable	6,370	5,627
Core deposit intangibles and goodwill	1,878	1,977
Others assets	3,126	5,549
Total assets	$ 686,304	$ 644,606
LIABILITIES:		
Deposits:		
Noninterest bearing	$ 75,682	$ 99,667
Interest bearing	461,649	430,163
Total deposits	537,331	529,830
Short-term borrowings	66,243	39,189
Interest payable	1,926	1,320
Other liabilities	2,598	3,249
Total liabilities	608,098	573,588
STOCKHOLDERS' EQUITY:		
Preferred stock, no-par value:		
Authorized and unissued -- 500,000 shares		
Common stock, $.125 stated value:		
Authorized --- 20,000,000 shares		
Issued and outstanding -- 5,056,911 and 3,366,346 shares	632	421
Additional paid-in capital	15,929	16,231
Retained earnings	61,323	56,886
Net unrealized gains (losses) on securities available for sale	322	(2,520)
Total stockholders' equity	78,206	71,018
Total liabilities and stockholders' equity	$ 686,304	$ 644,606

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995	1994
Interest Income:				
Loans, including fees:				
Taxable	$ 9,590	$ 8,301	$ 27,952	$ 23,280
Tax exempt	35	20	80	64
Securities:				
Taxable	2,211	2,039	6,271	6,586
Tax exempt	647	617	1,810	1,817
Federal Reserve and Federal Home Loan Bank stock	37	25	110	73
Federal funds sold	275	14	594	84
Interest-bearing time deposits	1		2	2
Total interest income	12,796	11,016	36,819	31,906
Interest Expense:				
Deposits	5,088	3,600	14,090	10,440
Short-term borrowings	752	591	1,846	1,448
Total interest expense	5,840	4,191	15,936	11,888
Net interest income	6,956	6,825	20,883	20,018
Provision for loan losses	160	201	480	593
Net interest income after provision for loan losses	6,796	6,624	20,403	19,425
Other Income:				
Securities gains (losses), net			(66)	11
Other income	1,902	1,557	5,179	4,686
Total other income	1,902	1,557	5,113	4,697
Total other expenses	4,870	4,758	14,173	13,668
Income before income tax	3,828	3,423	11,343	10,454
Income tax expense	1,414	1,196	4,009	3,621
Net income	$ 2,414	$ 2,227	$ 7,334	$ 6,833
Per Share:				
Net income	$ .48	$ .44	$ 1.45	$ 1.35
Dividends	.20	.19	.57	.52
Weighted average shares outstanding	5,062,748	5,086,058	5,056,568	5,080,419

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollar amounts in thousands)

(Unaudited)

	1995	1994
BALANCES, JANUARY 1.	$ 71,018	$ 68,804
Net income	7,334	6,833
Cash dividends	(2,898)	(2,640)
Stock issued under employee benefit plans.	277	250
Stock issued under dividend reinvestment and stock purchase plan	327	261
Stock options exercised.	199	94
Stock redeemed	(893)	(638)
Change in net unrealized gains (losses) on securities available for sale	2,842	(1,690)
BALANCES, SEPTEMBER 30	$ 78,206	$ 71,274

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	NINE MONTHS ENDED SEPTEMBER 30, 1995	1994
OPERATING ACTIVITIES:		
Net income	$ 7,334	$ 6,833
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	480	593
Depreciation and amortization	899	842
Securities amortization, net	533	825
Change in interest receivable	(620)	(214)
Change in interest payable	606	1
Loans originated for resale	(1,852)	
Proceeds from sales of loans	1,859	
Other adjustments	64	8
Net cash provided by operating activities	9,303	8,888
INVESTING ACTIVITIES:		
Net change in interest-bearing time deposits	(70)	254
Purchases of:		
Securities available for sale	(53,645)	(18,204)
Securities held for maturity	(29,107)	(28,382)
Proceeds from maturities of:		
Securities available for sale	10,318	23,870
Securities held to maturity	28,856	34,875
Proceeds from sales of securities available for sale	11,196	
Net change in loans	(6,518)	(17,044)
Purchases of premises and equipment	(1,565)	(540)
Other investing activities	153	467
Net cash used in investing activities	(40,382)	(4,704)
FINANCING ACTIVITIES:		
Net change in noninterest-bearing, NOW, money market and savings deposits	(39,766)	(4,076)
Net change in certificates of deposit and other time deposits	47,267	3,469
Net change in short-term borrowings	27,054	(4,357)
Cash dividends	(2,898)	(2,640)
Stock issued under employee benefit plans	277	250
Stock issued under dividend reinvestment and stock purchase plan	327	261
Stock options exercised	199	94
Stock redeemed	(893)	(638)
Net cash provided (used) by financing activities	31,567	(7,637)
Net Increase (Decrease) in Cash and Cash Equivalents	488	(3,453)
Cash and Cash Equivalents, January 1	46,359	26,567
Cash and Cash Equivalents, September 30	$ 46,847	$ 23,114

See notes to consolidated condensed financial statements.

FORM 10-Q
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENT
(Dollar amounts in thousands)
(Unaudited)

NOTE 1. General

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

NOTE 2. Changes In Method of Accounting

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

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

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

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

NOTE 3. Securities

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Securities available for sale at September 30, 1995:				
U.S. Treasury	$ 2,544	$ 12	$ 13	$ 2,543
Federal agencies.	64,191	772	258	64,705
State and municipal	16,567	307	90	16,784
Mortgage and other asset-backed securities.	25,167	154	215	25,106
Other Securities.	250			250
Corporate obligations	26,566	120	255	26,431
Total	$135,285	$1,365	$831	$135,819

(Dollar amounts in thousands)

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Securities held to maturity at September 30, 1995:				
U.S. Treasury	$ 7,104	$ 8	$ 25	$ 7,087
Federal agencies	22,227	44	89	22,182
State and municipal	44,104	412	132	44,384
Mortgage and other asset-backed securities	2,143	34		2,177
Corporate obligations	2,120	2	6	2,116
Total	$ 77,698	$500	$ 252	$77,946
Securities available for sale at December 31, 1994:				
U.S. Treasury	$ 11,817		$ 550	$11,267
Federal agencies	35,565		1,271	34,294
State and municipal	9,762	$ 31	385	9,408
Mortgage and other asset-backed securities	22,171	29	836	21,364
Corporate obligations	24,221	4	1,195	23,030
Total	$103,536	$ 64	$4,237	$99,363
Securities held to maturity at December 31, 1994:				
U.S. Treasury	$ 12,630	$ 21	$ 222	$12,429
Federal agencies	24,529	29	469	24,089
State and municipal	38,117	211	680	37,648
Mortgage and other asset-backed securities	370			370
Corporate obligations	2,031		45	1,986
Total	$ 77,677	$261	$1,416	$76,522

	COST	
	SEPT. 30, 1995	DEC. 30, 1994
Federal Reserve and Federal Home Loan Bank stock:		
Federal Reserve Bank stock	$ 307	$ 307
Federal Home Loan stock	1,585	1,572
Total	$1,892	$1,879

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

NOTE 4. Loans and Allowance

	September 30, 1995	December 31, 1994
Loans:		
Commercial and industrial loans	$ 76,789	$ 78,943
Bankers' acceptances and loans to financial institutions	2,600	
Agricultural production financing and other loans to farmers	7,002	5,310
Real estate loans:		
Construction	10,244	8,126
Commercial and farmland	66,367	64,110
Residential	166,672	164,760
Individuals' loans for household and other personal expenditures	75,815	78,041
Tax exempt loans	889	1,204
Other loans	1,106	1,111
Total loans	$407,484	$401,605
Nonperforming Loans:		
Nonaccruing loans	$ 354	$ 326
Loans contractually past due 90 days or more other than nonaccruing	902	703
Restructured loans	689	754

	Nine Months Ended September 30, 1995	1994
Allowance for loan losses:		
Balances, January 1	$4,998	$4,800
Provision for losses	480	593
Recoveries on loans	125	249
Loans charged off	(489)	(522)
Balances, September 30	$5,114	$5,120

NOTE 5. Stockholders' Equity

On August 8, 1995, the Board of Directors of the Corporation declared a three-for-two stock split on its common shares. The new shares were distributed on October 27, 1995, to holders of record on October 20, 1995. All per share and weighted average share amounts have been restated to give effect of the stock split.

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

RESULTS OF OPERATIONS

The Corporation has recorded 19 consecutive years of growth in operating earnings per share, reaching $1.81 in 1994, an increase of 9.1 per cent over 1993.

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

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

Improvement was achieved in each of these ratios during the first nine months of 1995, as compared to the same period in 1994.

- Earning per share were $1.45, up 7.4 per cent from $1.35
- Return on assets was 1.50 per cent increasing from 1.44 per cent
- Return on equity totalled 13.06 per cent compared to 13.04 per cent for the first nine months of 1994

CAPITAL

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

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

The Corporation's capital ratios exceed regulatory requirements as shown in the following table.

	September 30, 1995	December 31, 1994	September 30, 1994
Capital to Asset	11.40%	11.02%	11.42%
Tier 1 risk-based capital ratio.	17.00	16.28	16.68
Total risk-based capital ratio	18.15	17.41	17.87
Leverage ratio	11.33	11.54	11.32

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

On August 8, 1995, the Board of Directors of the Corporation declared a three-for-two stock split on its common shares. The new shares were distributed on October 27, 1995, to holders of record on October 20, 1995. All per share and weighted average share amounts have been restated to give effect of the stock split.

ASSET QUALITY/PROVISION FOR LOAN LOSSES

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

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

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

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

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

On September 30, 1995, the loan loss reserve stood at $5,114,000. As a per cent of loans, the reserve stood at 1.26 per cent compared to 1.24 per cent at year end 1994, and 1.27 per cent at year end 1993. The provision for loan losses for the first nine months of 1995 declined to $480,000 from $593,000 for the same period of 1994, based on management's analysis of the adequacy of the reserve in light of improving credit quality in the loan portfolio.

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

	Sept. 30, 1995	Dec. 31, 1994	Dec. 31, 1993	Dec. 31, 1992	Dec. 31, 1991
Allowance for loan losses:					
Balance at January 1	$ 4,998	$ 4,800	$ 4,351	$ 3,867	$ 3,254
Addition resulting from acquisition					252
Chargeoffs:					
Commercial	134	526	391	588	806
Real estate mortgage		41	129	100	41
Installment	355	346	388	552	511
Total chargeoffs	489	913	908	1,240	1,358
Recoveries:					
Commercial	61	216	240	215	227
Real estate mortgage	3	30	5	38	7
Installment	61	83	98	114	84
Total recoveries	125	329	343	367	318
Net chargeoffs	364	584	565	873	1,040
Provision for loan losses	480	782	1,014	1,357	1,401
Balance, end of period	$ 5,114	$ 4,998	$ 4,800	$ 4,351	$ 3,867
Ratio of net chargeoffs during the period to average loans during the period - annualized	.12%	.15%	.16%	.26%	.35%
Peer Group	N/A	.25%	.49%	.65%	.95%

LIQUIDITY AND INTEREST SENSITIVITY

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

First Merchants Corporation's liquidity and interest sensitivity position at September 30, 1995, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk. The table below presents the Corporation's interest rate sensitivity analysis as of September 30, 1995 (table dollar amounts in thousands).

Interest-Rate Sensitivity Analysis

At September 30, 1995

	1-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
Rate-sensitive assets:					
Federal funds sold and interest-bearing time deposits.	$ 21,091				$ 21,091
Securities.	57,655	$ 19,420	$ 124,698	$ 13,636	215,409
Loans	210,278	43,171	105,125	48,910	407,484
Total rate-sensitive assets	289,024	62,591	229,823	62,546	643,984
Rate-sensitive liabilities:					
Interest-bearing deposits	206,679	34,282	220,632	56	461,649
Short-term borrowings	65,243	1,000			66,243
Total rate-sensitive liabilities.	271,922	35,282	220,632	56	527,892
Interest rate sensitivity gap by period . . .	$ 17,102	$ 27,309	$ 9,191	$ 62,490	
Cumulative gap.	17,102	44,411	53,602	116,092	
Cumulative ratio at September 30, 1995. . . .	106%	114%	110%	122%	
Cumulative ratio at December 31, 1994	106%	121%	114%	125%	

EARNING ASSETS

Earning assets declined $.8 million during 1994 but increased $59.8 million during the first nine months of 1995. Growth over the nine month period, ending September 30, 1995, occurred in loans, short-term investments, and securities.

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

	Earning Assets		
	September 30, 1995	December 31, 1994	December 31, 1993
Federal funds sold and interest bearing time deposits	$ 21.1	$ 3.7	$ 1.9
Securities available for sale.	135.8	99.3	
Securities held to maturity.	77.7	77.7	204.3
Federal Reserve and Federal Home Loan Bank stock	1.9	1.9	1.9
Loans.	407.5	401.6	376.9
Total	$ 644.0	$ 584.2	$ 585.0

DEPOSITS AND BORROWINGS

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

	Period End Balances		Average Balances	
	Deposits	Short-term Borrowings	Deposits	Short-term Borrowings
September 30, 1995 . . .	$ 537.3	$ 66.2	$ 528.9	$ 44.5
December 31, 1994. . . .	529.8	39.2	514.0	45.6
December 31, 1993. . . .	506.3	46.9	517.8	35.3

NET INTEREST INCOME

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

The table below presents the Corporation's interest income, interest expense, and net interest income on a fully taxable equivalent basis (FTE) as a per cent of average earning assets for the four-year period ending in 1994 and the first nine months of 1995 (table dollar amounts in thousands).

	Interest Income (FTE) as a Per Cent of Average Earning Assets	Interest Expense as a Per Cent of Average Earning Assets	Net Interest Income (FTE) as a Per Cent of Earning Assets	Average Earning Assets	Net Interest Income (FTE)
1995 (1) . .	8.15%	3.43%	4.72%	$619,008	$29,201
1994	7.44	2.70	4.74	597,102	28,282
1993	7.38	2.81	4.57	587,009	26,806
1992	8.31	3.65	4.66	566,467	26,400
1991	9.48	5.05	4.43	525,799	23,277

(1) First nine months annualized

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

During the first nine months of 1995, interest income (FTE) as a per cent of average earning assets increased .71 per cent while interest expense as a per cent of average earning assets grew by .73 per cent. Consequently, net interest income (FTE) as a per cent of average earning assets declined .02 per cent. The increase in net interest income (FTE) is due to growth in average earning assets of over $21.9 million.

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

OTHER INCOME

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

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

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

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

During the first nine months of 1995, other income equaled $5,113,000, or $416,000 (8.9 per cent) above the first nine month 1994 level of $4,697,000. Trust revenues grew $101,000, or 5.3 per cent; and approximately $8,000,000 of the Corporations student aid loans were sold in July 1995 at a gain of $205,000, accounting for most of the increase..

OTHER EXPENSE

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

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

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

During the first nine months of 1995 other expenses were $14,173,000, up $505,000 or 3.7 per cent from the same period in 1994. Salary and benefit expenses grew $428,000 (5.7 per cent), premises and equipment expense increased $166,000 (8.2 per cent), marketing expense rose $146,000 (42.0 per cent), and stationery printing and supplies expense increased by $135,000 (24.3 per cent). These increases totaled $875,000 in the aggregate, and were offset by a refund from the state of Indiana for intangibles taxes paid in 1988 and 1989 in the amount of $238,000 and by a reduction in deposit insurance premiums of $308,000.

INCOME TAXES

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

During the first six months of 1995, income tax expense grew $170,000 from the same period one year earlier, primarily due to a $889,000 increase in pre-tax net income.

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

	Nine Months Ended September 30,		Twelve Months Ended December 31,	
	1995	1994	1994	1993
Federal taxes. . .	$ 3,043	$ 2,733	$ 3,735	$ 3,272
State taxes. . . .	966	888	1,172	1,124
Total.	$ 4,009	$ 3,621	$ 4,907	$ 4,396

INFLATION

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

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

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit 27. Financial Data Schedule

(b) Form 8-K was filed August 15, 1995 for a 3 for 2 stock split dividend effective October 27, 1995.

FIRST MERCHANTS CORPORATION

FORM 10-Q

SIGNATURES

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

FIRST MERCHANTS CORPORATION
(Registrant)

Date	November 9, 1995	by	/s/ STEFAN S. ANDERSON
			Stefan S. Anderson President and Director
Date	November 9, 1995	by	/s/ JAMES L. THRASH
			James L. Thrash Chief Financial & Principal Accounting Officer

9

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED BALANCE SHEET AND CONSOLIDATED STATEMENT OF INCOME FOUND ON PAGE 3 AND 4 OF THE COMPANY'S FORM 10-Q FOR THE YEAR-TO-DATE, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS
DEC-31-1995
JAN-01-1995
SEP-30-1995
25,849
93
20,998
0
135,819
77,698
77,946
407,484
5,114
686,304
537,331
66,243
4,524
0
632
0
0
77,574
686,304
28,032
8,191
596
36,819
14,090
15,936
20,883
480
(66)
14,173
11,343
7,334
0
0
7,334
1.45
1.45
0
0
0
0
0
0
0
0
0
0
0
0