

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1995      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      (I.R.S. Employer  
incorporation or organization)      Identification No.)

200 East Jackson  
Muncie, Indiana      47305-2814  
(Address of principal executive offices)      (Zip Code)

Registrant's telephone number, including area code: (317) 747-1500

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.125 stated value per share  
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K.    [X]

The aggregate market value (not necessarily a reliable indication of the  
price at which more than a limited number of shares would trade) of the voting  
stock held by non-affiliates of the registrant was \$117,223,514 as of March 5,  
1996.

As of March 5, 1996 there were outstanding 5,057,632 common shares, without  
par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Documents -----	Part of Form 10-K Into Which Incorporated -----
1995 Annual Report to Stockholders Definitive Proxy Statement for Annual Meeting of Shareholders to be held April 4, 1996	Part II (Items 5 through 8)  Part III (Items 10 through 13)
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## PART I

### ITEM 1. BUSINESS.

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#### GENERAL

First Merchants Corporation (the "Corporation") was incorporated under Indiana law on September 20, 1982, as the bank holding company for First Merchants Bank, National Association ("First Merchants"), a national banking association incorporated on February 6, 1893. Prior to December 16, 1991, First Merchants' name was The Merchants National Bank of Muncie. On November 30, 1988, the Corporation acquired Pendleton Banking Company ("Pendleton"), a state chartered commercial bank organized in 1872. On July 31, 1991, the Corporation acquired First United Bank ("First United"), a state chartered commercial bank organized in 1882.

As of December 31, 1995, the Corporation had consolidated assets of \$707.9 million, consolidated deposits of \$588.2 million and stockholders' equity of \$80.5 million.

The Corporation is headquartered in Muncie, Indiana, and is presently engaged in conducting commercial banking business through the 21 offices of its three banking subsidiaries. As of December 31, 1995, the Corporation and its subsidiaries had 379 full-time equivalent employees.

Through its subsidiaries, the Corporation offers a broad range of financial services, including: accepting time and transaction deposits; making consumer, commercial, agri-business and real estate mortgage loans; issuing credit cards; renting safe deposit facilities; providing personal and corporate trust services; and providing other corporate services, letters of credit and repurchase agreements.

#### ACQUISITION POLICY AND PENDING TRANSACTIONS

The Corporation anticipates that it will continue its policy of geographic expansion through consideration of acquisitions of additional financial institutions. Management of the Corporation periodically engages in reviewing and analyzing potential acquisitions. The Corporation is a party to a definitive agreement to merge with Union National Bancorp and thereby acquire its wholly-owned subsidiary, The Union County National Bank of Liberty. Union National Bancorp's principal executive offices are located in Liberty, Indiana. The Corporation is also a party to a definitive agreement to merge with Randolph County Bancorp and thereby acquire its wholly-owned subsidiary, The Randolph County Bank. Randolph County Bancorp's principal executive offices are located in Winchester, Indiana.

#### COMPETITION

The Corporation's banking subsidiaries are located in Delaware, Madison, and Henry counties, Indiana. In addition to the competition provided by the lending and deposit gathering subsidiaries of national manufacturers, retailers, insurance companies and investment brokers, the banking subsidiaries compete vigorously with other banks, thrift institutions, credit unions and finance companies located within their service areas.

#### SUPERVISION AND REGULATION

The Corporation is a bank holding company ("BHC") subject to regulation under the Bank Holding Company Act of 1956, as amended (the "Act"). The Act generally requires a BHC to obtain prior approval of the Federal Reserve Board (the "FRB") to acquire or hold more than a 5% voting interest in any bank. The Act restricts the non-banking activities of BHCs to those which are closely related to banking activities. As a result of the provisions in the Financial Institutional Reform, Recovery and Enforcement Act of 1989, BHCs may now own and operate savings and loan

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SUPERVISION AND REGULATION (CONTINUED)

associations or savings banks which, in the past, was prohibited. First Merchants is a national bank and is supervised, regulated and examined by the Comptroller of the Currency. Pendleton and First United are state banks and are supervised, regulated and examined by the Indiana Department of Financial Institutions (the "DFI"). In addition, First Merchants, as a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve. In addition, Pendleton and First United, which are not members of the Federal Reserve System, are supervised and regulated by the Federal Deposit Insurance Corporation ("FDIC"). The deposits of First Merchants, Pendleton, and First United (the "Banks") are insured by the FDIC. Each regulator has the authority to issue cease-and-desist orders if it determines their activities represent an unsafe and unsound practice or violation of law.

Under the Act and under regulations of the FRB, the Corporation and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with the extension of credit and are subject to limitations as to certain intercompany transactions.

Subject to certain limitations, an Indiana bank may establish branches de novo and may establish branches by acquisition in any location or locations within Indiana. Indiana law permits intrastate bank holding company acquisitions, subject to certain limitations. Effective July 1, 1992, Indiana bank holding companies were permitted to acquire banks, and banks and bank holding companies in Indiana were permitted to be acquired by bank holding companies, located in any state in the United States which permits reciprocal entry by Indiana bank holding companies. Prior to July 1, 1992, such interstate bank holding company acquisitions were permitted only on a regional, as opposed to national, basis. Neither the Corporation nor its subsidiaries presently contemplate engaging in any non-banking related business activities.

During 1991, Congress passed the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"). In addition to addressing the insurance fund's financial needs, FDICIA expanded the power of the federal banking regulators. FDICIA introduced a new system of classifying financial institutions with respect to their capitalization. Effective in 1993, FDICIA also requires certain financial institutions, such as First Merchants, to have annual audits and requires management to issue supplemental reports attesting to an institution's compliance with laws and regulations and to the adequacy of its internal controls and procedures.

The Riegle Community Development and Regulatory Improvement Act of 1994 (Act) was signed into law in 1994. The Act contains seven titles pertaining to community development and home ownership protection, small business capital formation, paperwork reduction and regulatory improvement, money laundering and flood insurance. The Act grants the authority to several agencies to promulgate regulations under the Act. No regulations have yet been promulgated. The Corporation cannot predict with certainty the impact of the Act on the banking industry.

In September, 1994, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Act) was enacted into law. The Interstate Act authorized interstate acquisitions, mergers and bank branching and agency banking with affiliates in different states. The Interstate Act amends the Bank Holding Company Act to allow adequately capitalized and managed bank holding companies to acquire a bank located in another state beginning in September, 1995. The new act permits full interstate branching after June 1, 1997. After that date, BHCs may merge

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 SUPERVISION AND REGULATION (CONTINUED)

existing bank subsidiaries into one bank, with banks also permitted to merge unaffiliated banks across state lines. States may permit interstate branching earlier than June 1, 1997, where both states involved with a bank merger expressly permit it by statute. The Interstate Act permits states to enact a law expressly prohibiting interstate mergers. Such laws must apply equally to all out-of-state banks and be passed before June 1, 1997.

The monetary policies of regulatory authorities, including the Federal Reserve Board, have a significant effect on the operating results of banks and bank holding companies. The nature of future monetary policies and the effect of such policies on the future business and earnings of the Corporation and its subsidiary banks cannot be predicted.

The Corporation is under the jurisdiction of the Securities and Exchange Commission and state securities commission for matters relating to the offering and sale of its securities and is subject to the Securities and Exchange Commission's rules and regulations relating to periodic reporting, reporting to stockholders, proxy solicitation, and insider trading.

The Corporation's income is principally derived from dividends paid on the common stock of its subsidiaries. The payment of these dividends are subject to certain regulatory restrictions.

CAPITAL REQUIREMENTS

The Corporation and its subsidiary banks must meet certain minimum capital requirements mandated by the FRB, the FDIC and DFI. These regulatory agencies require BHCs and banks to maintain certain minimum ratios of primary capital to total assets and total capital to total assets. As of January 1, 1991, the FRB required bank holding companies to maintain a minimum Tier 1 leverage ratio to 3 per cent capital to total assets; however, for all but the most highly rated institutions which do not anticipate significant growth, the minimum Tier 1 ratio is 3 per cent plus an additional cushion of 100 to 200 basis points. As of December 31, 1995, the Corporation's leverage ratio of capital to total assets was 11.13 per cent.

The FRB and FDIC each have approved the imposition of "risk-adjusted" capital ratios on BHCs and financial institutions. The Corporation and its subsidiaries had capital to assets ratios and risk-adjusted capital ratios at December 31, 1995, in excess of the applicable regulatory minimum requirements.

The following table summarizes the Corporation's risk-adjusted capital ratios under FRB guidelines at December 31, 1995:

	Corporation's Consolidated Ratio -----	Regulatory Minimum Requirement -----
Tier 1 Capital to Risk-Weighted Assets Ratio . . . . .	16.99%	4.00%
Total Capital to Risk-Weighted Assets Ratio . . . . .	18.07%	8.00%

STATISTICAL DATA

The following tables set forth statistical data relating the Corporation and its subsidiaries.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;  
INTEREST RATES AND INTEREST DIFFERENTIAL

The daily average balance sheet amounts, the related interest income or expense, and average rates earned or paid are presented in the following table.

	1995			1994			1993		
	Average Balance	Interest Income/Expense	Average Rate	Average Balance	Interest Income/Expense	Average Rate	Average Balance	Interest Income/Expense	Average Rate
(Dollars in Thousands on Fully Taxable Equivalent Basis)									
<b>Assets:</b>									
Federal funds sold . . . . .	\$ 16,426	\$ 907	5.5%	\$ 4,808	\$ 217	4.5%	\$ 15,653	\$ 454	2.9%
Interest-bearing time deposits . . . . .	87	4	4.6	35	2	5.7	648	35	5.4
Federal Reserve and Federal Home Loan Bank stock . . . . .	1,888	149	7.9	1,879	103	5.5	522	29	5.6
<b>Securities:</b>									
Taxable . . . . .	146,140	8,624	5.9	149,063	8,552	5.7	163,006	10,265	6.3
Tax-exempt . . . . .	51,303	3,807	7.4	52,678	3,690	7.0	50,152	3,631	7.2
Total Securities . . . . .	197,443	12,431	6.3	201,741	12,242	6.1	213,158	13,896	6.5
Mortgage loans held for sale . . . . .	281	22	7.8						
<b>Loans:</b>									
Commercial . . . . .	169,608	16,339	9.6	156,465	12,861	8.2	148,657	10,919	7.3
Bankers' acceptance and commercial paper purchased . . . . .	2,590	149	5.8	454	22	4.8	112	4	3.6
Real estate mortgage . . . . .	150,933	13,062	8.7	143,568	11,711	8.2	132,932	11,364	8.5
Installment . . . . .	89,692	8,179	9.1	86,824	7,128	8.2	73,226	6,418	8.8
Tax-exempt loans . . . . .	836	86	10.3	1,328	127	9.6	2,101	185	8.8
Total loans . . . . .	413,659	37,815	9.1	388,639	31,849	8.2	357,028	28,890	8.1
Total earning assets . . . . .	629,784	51,328	8.2	597,102	44,413	7.4	587,009	43,304	7.4
<b>Net unrealized loss on securities available for sale . . . . .</b>									
	( 1,462)			(1,387)					
Allowance for loan losses . . . . .	( 5,074)			(4,936)			(4,584)		
Cash and due from banks . . . . .	22,049			23,316			23,373		
Premises and equipment . . . . .	9,957			9,318			8,634		
Other assets . . . . .	10,093			11,455			11,966		
Total assets . . . . .	\$665,347			\$634,868			\$626,398		
<b>Liabilities:</b>									
<b>Interest-bearing deposits:</b>									
NOW accounts . . . . .	\$ 85,532	1,931	2.3	\$ 85,973	1,786	2.1	\$ 79,106	1,811	2.3
Money market deposit accounts . . . . .	94,710	3,675	3.9	105,083	3,101	3.0	111,136	3,112	2.8
Savings deposits . . . . .	53,202	1,434	2.7	55,755	1,429	2.6	51,697	1,414	2.7
Certificates and other time deposits . . . . .	230,659	12,525	5.4	195,475	7,978	4.1	206,833	9,094	4.4
Total interest-bearing deposits . . . . .	464,103	19,565	4.2	442,286	14,294	3.2	448,772	15,431	3.4
Short-term borrowings . . . . .	44,799	2,490	5.6	45,639	1,837	4.0	35,317	1,067	3.0
Federal Home Loan Bank advance . . . . .	515	28	5.4						
Total interest-bearing liabilities . . . . .	509,417	22,083	4.3	487,925	16,131	3.3	484,089	16,498	3.4
Noninterest-bearing deposits . . . . .	74,436			71,743			69,054		
Other liabilities . . . . .	5,493			5,096			6,368		
Total liabilities . . . . .	589,346			564,764			559,511		
Stockholders' equity . . . . .	76,001			70,104			66,887		
Total liabilities and stockholders' equity . . . . .	\$665,347	22,083	3.5**	\$634,868	16,131	2.7**	\$626,398	16,498	2.8**
Net interest income . . . . .		\$ 29,245	4.6		\$ 28,282	4.7		\$26,806	4.6
*Nonaccruing loans have been included in the average balances.									
**Total interest expense divided by total earning assets									
Adjustment to convert tax exempt investment securities to fully taxable equivalent basis, using marginal rate of 35% for 1995 and 34% for 1994 and 1993 . . . . .									
		\$ 1,364			\$ 1,299			\$ 1,298	

STATISTICAL DATA (Continued)

ANALYSIS OF CHANGES IN NET INTEREST INCOME

The following table presents net interest income components on a tax-equivalent basis and reflects changes between periods attributable to movement in either the average balance or average interest rate for both earning assets and interest-bearing liabilities. The volume differences were computed as the difference in volume between the current and prior year times the interest rate of the prior year, while the interest rate changes were computed as the difference in rate between the current and prior year times the volume of the prior year. Volume/rate variances have been allocated on the basis of the absolute relationship between volume variances and rate variances.

	1995 Compared to 1994 Increase (Decrease) Due To			1994 Compared to 1993 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in Thousands on Fully Taxable Equivalent Basis)					
Interest income:						
Federal funds sold . . . . .	\$ 632	\$ 58	\$ 690	\$ (411)	\$ 174	\$ (237)
Interest-bearing time deposits . . . . .	2		2	(35)	2	(33)
Federal Reserve and Federal Home Loan Bank stock . . . . .		46	46	75	(1)	(74)
Securities . . . . .	(243)	432	189	(769)	(885)	(1,654)
Mortgage loans held for sale . . . . .	22		22			
Loans . . . . .	2,206	3,760	5,966	2,597	362	2,959
Totals . . . . .	2,619	4,296	6,915	1,457	(348)	1,109
Interest expense:						
NOW accounts . . . . .	( 10)	155	145	145	(170)	(25)
Money market deposit accounts . . . . .	( 326)	900	574	(197)	186	(11)
Savings deposits . . . . .	( 58)	63	5	81	(66)	15
Certificates and other time deposits . . . . .	1,647	2,900	4,547	(498)	(618)	(1,116)
Short-term borrowings . . . . .	( 36)	689	653	360	410	770
Federal Home Loan Bank advance . . . . .	28		28			
Totals . . . . .	1,245	4,707	5,952	(109)	(258)	(367)
Change in net interest income (fully taxable equivalent basis) . . . . .	\$1,374	\$ (411)	963	\$1,566	\$ (90)	1,476
Tax equivalent adjustment using marginal rate of 35% for 1995 and 34% for 1994 and 1993 . . . . .			( 65)			(1)
Change in net interest income . . . . .			\$ 898			\$1,475

STATISTICAL DATA (Continued)

INVESTMENT SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses and approximate market value of the investment securities at the dates indicated were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in Thousands)				
Available for sale at December 31, 1995:				
U.S. Treasury . . . . .	\$ 4,531	\$ 26	\$ 3	\$ 4,554
Federal agencies . . . . .	67,518	1,299	72	68,745
State and municipal . . . . .	18,769	398	37	19,130
Mortgage and other asset-backed securities . . . . .	24,023	210	121	24,112
Corporate obligations . . . . .	26,120	264	55	26,329
Marketable equity securities . . . . .	250			250
Total available for sale . . . . .	141,211	2,197	288	143,120
Held to maturity at December 31, 1995:				
U.S. Treasury . . . . .	3,103	8	2	3,109
Federal agencies . . . . .	11,645	69	21	11,693
State and municipal . . . . .	40,013	483	57	40,439
Mortgage and other asset-backed securities . . . . .	2,953	8	1	2,961
Corporate obligations . . . . .	500			499
Total held to maturity . . . . .	58,214	568	81	58,701
Total investment securities . . . . .	\$ 199,425	\$ 2,765	\$ 369	\$ 201,821
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 available for sale . . . . .	103,536	64	4,237	99,363
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 held to maturity . . . . .	77,677	261	1,416	76,522
Total investment securities . . . . .	\$ 181,213	\$ 325	\$ 5,653	\$ 175,885



STATISTICAL DATA (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity at December 31, 1993:				
U.S. Treasury . . . . .	\$ 45,397	\$ 654	\$ 1	\$ 46,050
Federal agencies . . . . .	53,452	691	62	54,081
State and municipal . . . . .	44,866	1,211	55	46,022
Mortgage and other asset-backed securities . . . . .	23,690	219	93	23,816
Corporate obligations . . . . .	36,958	582	87	37,453
Total investment securities . . .	\$ 204,363	\$ 3,357	\$ 298	\$ 207,422

	Cost		
	1995	1994	1993
Federal Reserve and Federal Home Loan Bank stock at December 31:			
Federal Reserve Bank stock . . . . .	\$ 307	\$ 307	\$ 307
Federal Home Loan Bank stock . . . . .	1,585	1,572	1,572
Total . . . . .	\$ 1,892	\$ 1,879	\$ 1,879

The Fair Value of Federal Reserve and Federal Home Loan Bank stock approximates cost.

The maturity distribution (dollars in thousands) and average yields for the securities portfolio at December 31, 1995 were:

Securities available for sale December 31, 1995:

	Within 1 Year		1-5 Years		5 - 10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury . . . . .	\$ 1,519	5.37%	\$ 3,035	5.69%		
Federal Agencies . . . . .	17,194	6.26	50,452	6.37	\$ 1,099	8.12%
State and Municipal . . . . .			11,891	7.29	7,239	7.76
Corporate Obligations . . . . .	5,923	5.12	18,826	5.89	1,580	6.93
Marketable Equity Security . . . .	250					
Mortgage and other asset-backed . . . . .						
Total . . . . .	\$ 24,886	5.87	\$ 84,204	6.37	\$ 9,918	7.67

	Due After Ten Years		Mortgage and other asset-backed		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury . . . . .					\$ 4,554	5.59%
Federal Agencies . . . . .					68,745	6.37
State and Municipal . . . . .					19,130	7.46
Corporate Obligations . . . . .					26,329	5.78
Marketable Equity Security . . . .					250	
Mortgage and other asset-backed . . . . .			\$ 24,112	6.12%	24,112	6.12
Total . . . . .			\$ 24,112	6.12	\$143,120	6.34

STATISTICAL DATA (Continued)

Securities held to maturity at December 31, 1995:

	Within 1 Year		1-5 Years		5 - 10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury . . . . .	\$ 3,103	5.87%				
Federal Agencies . . . . .	6,898	6.13	\$ 4,747	6.00%		
State and Municipal . . . . .	8,692	7.44	27,835	7.02	\$ 2,866	8.27%
Corporate Obligations . . . . .	500	4.45				
Mortgage and other asset-backed . . . . .	-----		-----			
Total . . . . .	\$19,193	6.64	\$32,582	6.87	\$ 2,866	8.27

	Due After Ten Years		Mortgage and other asset-backed		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury . . . . .					\$ 3,103	5.87%
Federal Agencies . . . . .					11,645	6.08
State and Municipal . . . . .	\$ 620	8.95%			40,013	7.23
Corporate Obligations . . . . .					500	4.45
Mortgage and other asset-backed . . . . .			\$ 2,953	6.85%	2,953	6.85
Total . . . . .	\$ 620	8.95	\$ 2,953	6.85	\$58,214	6.88

\*Interest yields on state and municipal securities are presented on a fully taxable equivalent basis using a 35% rate.

Federal Reserve and Federal Home Loan Bank stock at December 31, 1995:

	Amount	Yield
Federal Reserve Bank stock . . . . .	\$ 307	6.00%
Federal Home Loan Bank stock . . . . .	1,585	8.00
Total . . . . .	\$ 1,892	7.68

STATISTICAL DATA (Continued)

LOAN PORTFOLIO

Types of Loans

The loan portfolio at the dates indicated is presented below:

	1995	1994	1993	1992	1991
	-----	-----	-----	-----	-----
	(Dollars in Thousands)				
Loans at December 31:					
Commercial and industrial loans . . . . .	\$ 85,690	\$ 78,943	\$ 76,760	\$ 70,959	\$ 76,245
Bankers acceptances and loans to financial institutions . . . . .	2,925		3,000	9,496	2,092
Agricultural production financing and other loans to farmers . . . . .	5,796	5,310	5,591	6,240	6,887
Real estate loans:					
Construction . . . . .	9,913	8,126	8,127	2,619	3,191
Commercial and farmland . . . . .	66,749	64,110	58,235	52,402	51,323
Residential . . . . .	166,414	164,760	150,572	140,526	120,281
Individuals' loans for household and other personal expenditures . . . . .	79,993	78,041	70,347	60,625	58,000
Tax-exempt loans . . . . .	863	1,204	1,474	2,402	2,309
Other loans . . . . .	651	1,111	2,766	5,039	3,054
	-----	-----	-----	-----	-----
Total loans . . . . .	\$418,994	\$401,605	\$376,872	\$350,308	\$323,382
	-----	-----	-----	-----	-----

At December 31, 1995, the Corporation had Residential Real Estate Loans Held for Sale of \$735,522.

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

Presented in the table below are the maturities of loans (excluding commercial real estate, farmland, residential real estate and individuals' loans) outstanding as of December 31, 1995. Also presented are the amounts due after one year classified according to the sensitivity to changes in interest rates.

	Maturing			Total
	Within 1 Year	1-5 Years	Over 5 Years	
	-----	-----	-----	-----
	(Dollars in Thousands)			
Commercial and industrial loans . . . . .	\$ 45,440	\$ 18,497	\$ 21,753	\$ 85,690
Agricultural production financing and other loans to farmers . . . . .	4,342	835	619	5,796
Real estate - Construction . . . . .	8,075	13	1,825	9,913
Tax-exempt loans . . . . .	122	329	412	863
Other loans . . . . .	651			651
	-----	-----	-----	-----
Total	\$ 58,630	\$ 19,674	\$ 24,609	\$102,913
	-----	-----	-----	-----

STATISTICAL DATA (Continued)

----- Maturing -----	
1 - 5 Years	Over 5 Years
----- (Dollars in Thousands) -----	

Loans maturing after one year with:

Fixed rates. . . . .	\$ 5,625	\$ 10,190
Variable rate. . . . .	14,049	14,419
	-----	-----
Total. . . . .	\$ 19,674	\$ 24,609
	-----	-----

RISK ELEMENTS

	----- December 31 -----				
	1995	1994	1993	1992	1991
	----- (Dollars in Thousands) -----				
Nonaccruing loans . . . . .	\$ 133	\$ 326	\$ 527	\$ 493	\$1,434
Loans contractually past due 90 days or more other than nonaccruing. . . . .	863	703	616	949	1,356
Restructured loans. . . . .	625	754	879	548	828

Nonaccruing loans are loans which are reclassified to a nonaccruing status when in management's judgment the collateral value and financial condition of the borrower do not justify accruing interest. Interest previously recorded but not deemed collectible is reversed and charged against current income. Interest income on these loans is then recognized when collected.

Restructured loans are loans for which the contractual interest rate has been reduced or other concessions are granted to the borrower because of a deterioration in the financial condition of the borrower resulting in the inability of the borrower to meet the original contractual terms of the loans.

Interest income of \$55,601 for the year ended December 31, 1995, was recognized on the nonaccruing and restructured loans listed in the table above, whereas interest income of \$59,168 would have been recognized under their original loan terms.

Potential problem loans:

Management has identified certain other loans totaling \$3,122,000 as of December 31, 1995, not included in the risk elements table, which are current as to principal and interest, about which there are doubts as to the to the borrowers' ability to comply with present repayment terms.

STATISTICAL DATA (Continued)

SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes the loan loss experience for the years indicated.

	1995	1994	1993	1992	1991
	(Dollars in Thousands)				
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 . . . . .	586	526	391	588	806
Real estate mortgage . . . . .		41	129	100	41
Installment . . . . .	296	346	388	552	511
Total chargeoffs . . . . .	882	913	908	1,240	1,358
Recoveries:					
Commercial . . . . .	89	216	240	215	227
Real estate mortgage . . . . .	4	30	5	38	7
Installment . . . . .	108	83	98	114	84
Total recoveries . . . . .	201	329	343	367	318
Net chargeoffs . . . . .	681	584	565	873	1,040
Provisions for loan losses . . . . .	640	782	1,014	1,357	1,401
Balance at December 31 . . . . .	\$ 4,957	\$ 4,998	\$ 4,800	\$ 4,351	\$ 3,867
Ratio of net chargeoffs during the period to average loans outstanding during the period . . . . .	.16%	.15%	.16%	.26%	.35%
Peer Group . . . . .	N/A	.25%	.49%	.65%	.95%

STATISTICAL DATA (Continued)

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES AT DECEMBER 31:

Presented below is an analysis of the composition of the allowance for loan losses and per cent of loans in each category to total loans:

	1995		1994	
	Amount	Per Cent	Amount	Per Cent
(Dollars in Thousands)				
Balance at December 31:				
Commercial, financial and agricultural . . . . .	\$ 2,212	22.7%	\$ 2,261	21.3%
Real estate - construction . . . . .		2.4		2.0
Real estate - mortgage . . . . .	587	55.6	560	57.0
Installment . . . . .	1,200	19.1	1,263	19.4
Tax-exempt loans . . . . .		.2		.3
Unallocated . . . . .	958	N/A	914	N/A
Totals . . . . .	\$ 4,957	100.0%	\$ 4,998	100.0%

	1993		1992	
	Amount	Per Cent	Amount	Per Cent
(Dollars in Thousands)				
Balance at December 31:				
Commercial, financial and agricultural . . . . .	\$ 2,187	23.4%	\$ 2,193	26.2%
Real estate - construction . . . . .		2.2		.7
Real estate - mortgage . . . . .	384	55.4	435	55.1
Installment . . . . .	1,266	18.6	1,473	17.3
Tax-exempt loans . . . . .		.4		.7
Unallocated . . . . .	963	N/A	250	N/A
Totals . . . . .	\$ 4,800	100.0%	\$ 4,351	100.0%

	1991	
	Amount	Per Cent
(Dollars in Thousands)		
Balance at December 31:		
Commercial, financial and agricultural . . . . .	\$ 2,127	27.3%
Real estate - construction . . . . .		1.0
Real estate - mortgage . . . . .	193	53.1
Installment . . . . .	1,547	17.9
Tax-exempt loans . . . . .		0.7
Unallocated . . . . .		N/A
Totals . . . . .	\$ 3,867	100.0%

STATISTICAL DATA (Continued)

LOAN LOSS CHARGEOFF PROCEDURES

The Banks have weekly meetings at which loan delinquencies, maturities and problems are reviewed. The Board of Directors receive and review reports on loans monthly.

The Executive Committee of First Merchants' Board meets bimonthly to approve or disapprove all new loans in excess of \$1,000,000 and the Board reviews all commercial loans in excess of \$50,000 which were made or renewed during the preceding month. Pendleton's and First United's loan committees, consisting of all loan officers and the president, meet as required to approve or disapprove any loan which is in excess of an individual loan officer's lending limit.

All chargeoffs are approved by the senior loan officer and are reported to the Banks' Boards. The Banks charge off loans when a determination is made that all or a portion of a loan is uncollectible or as a result of examinations by regulators and the independent auditors.

PROVISION FOR LOAN LOSSES

In banking, loan losses are one of the costs of doing business. Although the Banks' management emphasize the early detection and chargeoff of loan losses, it is inevitable that at any time certain losses exist in the portfolio which have not been specifically identified. Accordingly, the provision for loan losses is charged to earnings on an anticipatory basis, and recognized loan losses are deducted from the allowance so established. Over time, all net loan losses must be charged to earnings. During the year, an estimate of the loss experience for the year serves as a starting point in determining the appropriate level for the provision. However, the amount actually provided in any period may be greater or less than net loan losses, based on management's judgment as to the appropriate level of the allowance for loan losses. The determination of the provision in any period is based on management's continuing review and evaluation of the loan portfolio, and its judgment as to the impact of current economic conditions on the portfolio. The evaluation by management includes consideration of past loan loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding.

Impaired loans are measured by the present value of expected future cash flows, or the fair value of the collateral of the loans, if collateral dependent. Impaired loans totaled \$3,122,000 at December 31, 1995. An allowance for losses at December 31, 1995, was not deemed necessary for impaired loans totaling \$1,900,000, but an allowance of \$559,000 was recorded for the remaining balance of impaired loans of \$1,222,000. The average balance of impaired loans for 1995 was \$1,682,000.

STATISTICAL DATA (Continued)

DEPOSITS

The following table shows the average amount of deposits and average rate of interest paid thereon for the years indicated.

	1995		1994		1993	
	Amount	Rate	Amount	Rate	Amount	Rate
(Dollars in Thousands)						
Balance at December 31:						
Noninterest bearing deposits . . . .	\$ 74,436		\$ 71,743		\$ 69,054	
NOW accounts . . . . .	85,532	2.3%	85,973	2.1%	79,106	2.3%
Money market deposit accounts . . . .	94,710	3.9	105,083	3.0	111,136	2.8
Savings deposits . . . . .	53,202	2.7	55,755	2.6	51,697	2.7
Certificates of deposit and other time deposits . . . . .	230,659	5.4	195,475	4.1	206,833	4.4
Total deposits . . . . .	\$538,539	3.6	\$514,029	2.8	\$517,826	3.0

As of December 31, 1995, certificates of deposit and other time deposits of \$100,000 or more mature as follows:

	Maturing				Total
	3 Months or less	3-6 Months	6-12 Months	Over 12 Months	
(Dollars in Thousands)					
Certificates of deposit and other time deposits . . . . .	\$18,517	\$ 9,969	\$ 5,513	\$15,217	\$49,216
Per cent . . . . .	38%	20%	11%	31%	

RETURN ON EQUITY AND ASSETS

	1995	1994	1993
Return on assets (net income divided by average total assets) . . . . .	1.48%	1.44%	1.39%
Return on equity (net income divided by average equity) . . . . .	2.97	13.06	13.01
Dividend payout ratio (dividends per share divided by net income per share) . .	39.49	39.44	37.06
Equity to assets ratio (average equity divided by average total assets) . . . . .	11.42	11.04	10.68



STATISTICAL DATA (Continued)

SHORT-TERM BORROWINGS

	1995	1994	1993
	(Dollars in Thousands)		
Balance at December 31:			
Federal funds purchased . . . . .	\$ 100	\$ 12,198	\$ 5,300
Securities sold under repurchase agreements . . . . .	27,293	17,776	26,363
U.S. Treasury demand notes . . . . .	6,582	9,215	15,227
Total short-term borrowings . . . . .	\$ 33,975	\$ 39,189	\$ 46,890

Securities sold under repurchase agreements are borrowings maturing within one year and are secured by U. S. Treasury and Federal agency obligations.

Pertinent information with respect to short-term borrowings is summarized below:

	1995	1994	1993
	(Dollars in Thousands)		
Weighted average interest rate on outstanding balance at December 31:			
Securities sold under repurchase agreements . . . . .	5.29%	4.86%	2.86%
Total short-term borrowings . . . . .	5.27	5.42	2.88
Weighted average interest rate during the year:			
Securities sold under repurchase agreements . . . . .	5.57	3.91	2.94
Total short-term borrowings . . . . .	5.56	4.03	3.02
Highest amount outstanding at any month end during the year:			
Securities sold under repurchase agreements . . . . .	\$ 54,670	\$ 29,115	\$ 33,949
Total short-term borrowings . . . . .	64,443	68,609	51,130
Average amount outstanding during the year:			
Securities sold under repurchase agreements . . . . .	33,632	23,389	22,882
Total short-term borrowings . . . . .	44,799	45,639	35,317

ITEM 2. PROPERTIES.

The headquarters of the Corporation and First Merchants are located in a five-story building at 200 East Jackson Street, Muncie, Indiana. This building and eight branch buildings are owned by First Merchants; five remaining branches of First Merchants are located in leased premises. Ten automated cash dispensers are located in leased premises; one cash dispenser is located in premises that are provided free of charge. All of the Corporation's and First Merchants' facilities are located in Delaware and Madison Counties of Indiana.

The principal offices of Pendleton are located at 100 West State Street, Pendleton, Indiana. Pendleton also operates three branches. All of Pendleton's properties are owned by Pendleton and are located in Madison County, Indiana. One automated dispenser is located in leased premises.

The principal offices of First United are located at 790 West Mill Street, Middletown, Indiana. First United also operates two branches. All of First United's properties are owned by First United and are located in Henry County, Indiana.

None of the properties owned by the banks are subject to any major encumbrances. The net investment of the Corporation and subsidiaries in real estate and equipment at December 31, 1995 was \$10,475,935.

ITEM 3. LEGAL PROCEEDINGS.

There is no pending legal proceeding, other than ordinary routine litigation incidental to the business of the Corporation or its subsidiaries, of a material nature to which the Corporation or its subsidiaries is a party or of which any of their properties are subject. Further, there is no material legal proceeding in which any director, officer, principal shareholder, or affiliate of the Corporation, or any associate of any such director, officer or principal shareholder, is a party, or has a material interest, adverse to the Corporation.

None of the routine legal proceedings, individually or in the aggregate, in which the Corporation or its affiliates are involved are expected to have a material adverse impact on the financial position or the results of operations of the Corporation.

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

No matters were submitted during the fourth quarter of 1995 to a vote of security holders, through the solicitation of proxies or otherwise.

SUPPLEMENTAL INFORMATION - EXECUTIVE OFFICERS OF THE REGISTRANT.

The names, ages, and positions with the Corporation and subsidiary banks of all executive officers of the Corporation are listed below.

Name and Age	Offices with the Corporation And Subsidiary Banks	Principal Occupation During Past Five Years
Stefan S. Anderson 61	Chairman of the Board and President, Corporation and First Merchants	Chairman of the Board of the Corporation and First Merchants since 1987; President of First Merchants since 1979 and of the Corporation since 1982
Thomas E. Buczek 49	First Vice President, First Merchants	First Vice President, First Merchants since May 1995; Vice President prior to May 1995
Michael L. Cox 51	Executive Vice President, Chief Operating Officer and Director, Corporation; Executive Vice President and Director, First Merchants	Executive Vice President and Chief Operating Officer, Corporation since May, 1994; Executive Vice President, First Merchants, since May, 1994; Director, Corporation and First Merchants since December, 1984; President, Information Systems Group, Ontario Corporation prior to May 1994.
Jack L. Demaree 47	Senior Vice President and Senior Commercial Loan Officer, First Merchants	Senior Vice President, First Merchants since March 1992, Senior Commercial Loan Officer, First Merchants since 1987; Vice President, First Merchants prior to March 1992
Roger W. Gilcrest 58	Executive Vice President and Director, First Merchants	Executive Vice President First Merchants since July, 1988; Director of First Merchants since July 1992
Paul R. Hoover 54	Senior Vice President, First Merchants	Senior Vice President, First Merchants since 1987
Larry R. Helms 55	Senior Vice President and General Counsel, Corporation; Senior Vice President, First Merchants; Director of First United; Director of Pendleton	Senior Vice President, Corporation since 1982 and Senior Vice President and General Counsel First Merchants since 1979; Director of First United and Pendleton since 1992
Rodney A. Medler 59	First Vice President, First Merchants	First Vice President, First Merchants since May 1995; Vice President and Cashier, First Merchants prior to May 1995

SUPPLEMENTAL INFORMATION - EXECUTIVE OFFICERS OF THE REGISTRANT.

Name and Age	Offices with the Corporation And Subsidiary Banks	Principal Occupation During Past Five Years
Michael G. Richardson 40	First Vice President, First Merchants	First Vice President since May 1995; Vice President prior to May 1995
James L. Thrash 46	Senior Vice President and Chief Financial Officer, Corporation; Senior Vice President, First Merchants	Senior Vice President and Chief Financial Officer of the Corporation since 1990; Chief Financial Officer, Corporation prior to May 1990; Senior Vice President, First Merchants since 1990

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information required under this item is incorporated by reference to page 2 of the Corporation's 1995 Annual Report to Stockholders under the caption "Stockholder Information," Exhibit 13.

ITEM 6. SELECTED FINANCIAL DATA.

The information required under this item is incorporated by reference to page 1 of the Corporation's 1995 Annual Report to Stockholders under the caption "Five-Year Summary of Selected Financial Data," Exhibit 13.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required under this item is incorporated by reference to page 2 through 7 of the Corporation's 1995 Annual Report to Stockholders under the caption "Management's Discussion and Analysis," Exhibit 13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and supplementary data required under this item are incorporated herein by reference to inside cover and pages 8 through 24 of the Corporation's 1995 Annual Report to Stockholders, Exhibit 13.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

In connection with its audits for the two most recent fiscal years ended December 31, 1995, there have been no disagreements with the Corporation's independent certified public accountants on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure, nor have there been any changes in accountants.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required under this item relating to directors is incorporated by reference to the Corporation's 1996 Proxy Statement furnished to its stockholders in connection with an annual meeting to be held April 4, 1996 (the "1996 Proxy Statement"), under the caption "Election of Directors," which Proxy Statement has been filed with the Commission. The information required under this item relating to executive officers is set forth in Part I, "Supplemental Information - Executive Officers of the Registrant" of this annual report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION.

The information required under this item is incorporated by reference to the Corporation's 1996 Proxy Statement, under the captions, "Compensation of Directors" and "Compensation of Executive Officers," which Proxy Statement has been filed with the Commission.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required under this item is incorporated by reference to the Corporation's 1996 Proxy Statement, under the caption, "Security Ownership of Certain Beneficial Owners and Management," which Proxy Statement has been filed with the Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required under this item is incorporated by reference to the Corporation's 1996 Proxy Statement, under the caption "Interest of Management in Certain Transactions," which Proxy Statement has been filed with the Commission.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

	Annual Report Page Number	Form 10-K Page Number
	-----	-----
(a)1. Financial Statements:		
Independent auditor's report . . . . .	Inside Cover	130
Consolidated balance sheet at December 31, 1995 and 1994 . . . . .	8	138
Consolidated statement of income, years ended December 31, 1995, 1994 and 1993 . .	9	139
Consolidated statement of changes in stockholders' equity, years ended December 31, 1995, 1994 and 1993 . . . . .	10	140
Consolidated statement of cash flows, years ended December 31, 1995, 1994 and 1993 . .	10-11	140-141
Notes to consolidated financial statements .	12-24	142-154

(a)2. Financial statement schedules:  
All schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or related notes.

(a)3. Exhibits:

Exhibit No:	Description of Exhibit:	
-----	-----	
3.1	Articles of Incorporation and the Articles of Amendment thereto . . . . .	(F)
3.2	Bylaws and amendments thereto . . . . .	30-42
10.1	First Merchants Bank, National Association Management Incentive Plan . . . . .	(A)
10.2	Unfunded Deferred Compensation Plan, as Amended . . . . .	(D)
10.3	Employee Stock Purchase Plan, (1989) . . . . .	(B)
10.4	1989 Stock Option Plan . . . . .	(C)
10.5	Employee Stock Purchase Plan (1994). . . . .	(E)
10.6	1994 Stock Option Plan . . . . .	(E)
10.7	Agreement of Reorganization and Merger by and between First Merchants Corporation and Randolph County Bancorp dated January 17, 1996 . . . . .	43-72
10.8	Agreement of Reorganization and Merger by and between First Merchants Corporation and Union National Bancorp dated January 24, 1996 . . . . .	73-106

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.  
(Continued)

Exhibit No:	Description of Exhibit:	Form 10-K Page Number
-----	-----	-----
13	1995 Annual Report to Stockholders (except for the Pages and information thereof expressly incorporated by reference in this Form 10-K, the Annual Report to Stockholders is provided solely for the information of the Securities and Exchange Commission and is not deemed "filed" as part of this Form 10-K). . . . .	107-154
21	Subsidiaries of Registrant . . . . .	27
23	Consent of Independent Auditors . . . . .	28
27	Financial Data Schedule . . . . .	157
99.1	Financial statements and independent auditor's report for First Merchants Corporation Employee Stock Purchase Plan . .	29

- (A) Incorporated by reference to Registrant's Registration Statement on Form S-4 (SEC File No. 33-110) ordered effective on September 30, 1988.
- (B) Incorporated by reference to Registrant's Registration Statement on Form S-8 (SEC File No. 33-28900) effective on May 24, 1989.
- (C) Incorporated by reference to Registrant's Registration Statement on Form S-8 (SEC File No. 33-28901) effective on May 24, 1989.
- (D) Incorporated by reference to Registrant's Form 10-K for year ended December 31, 1990.
- (E) Incorporated by reference to Registrant's Form 10-K for year ended December 31, 1993.
- (F) Incorporated by reference to Registrant's Form 10-K for year ended December 31, 1994.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed for the three months ended December 31, 1995.

Pursuant to the requirements of Section 13 or 15(d) 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, on this 12th day of March, 1996.

FIRST MERCHANTS CORPORATION

By /s/ Stefan S. Anderson

-----  
Stefan S. Anderson, Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
-----	-----	-----
/s/ Stefan S. Anderson ----- Stefan S. Anderson	Director and Chairman, Principal Executive Officer	March 12, 1996
/s/ Michael L. Cox ----- Michael L. Cox	Director, Executive Vice President and Chief Operating Officer	March 12, 1996
/s/ James L. Thrash ----- James L. Thrash	Principal Financial and Principal Accounting Officer	March 12, 1996
/s/ Frank A. Bracken ----- Frank A. Bracken	Director	March 12, 1996
----- Thomas B. Clark	Director	March 12, 1996
/s/ David A. Galliher ----- David A. Galliher	Director	March 12, 1996
/s/ Thomas K. Gardiner ----- Dr. Thomas K. Gardiner	Director	March 12, 1996
/s/ Hurley C. Goodall ----- Hurley C. Goodall	Director	March 12, 1996
/s/ John W. Hartmeyer ----- John W. Hartmeyer	Director	March 12, 1996
/s/ Nelson W. Heinrichs ----- Nelson W. Heinrichs	Director	March 12, 1996



Signature	Capacity	Date
/s/ Jon H. Moll ----- Jon H. Moll	Director	March 12, 1996
/s/ George A. Sissel ----- George A. Sissel	Director	March 12, 1996
/s/ Robert M. Smitson ----- Robert M. Smitson	Director	March 12, 1996
/s/ Joseph E. Wilson ----- Joseph E. Wilson	Director	March 12, 1996
/s/ ----- Robert F. Wisehart	Director	March 12, 1996
/s/ John E. Worthen ----- John E. Worthen	Director	March 12, 1996

INDEX TO EXHIBITS

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- (E) Incorporated by reference to Registrant's Form 10-K for year ended December 31, 1993.
- (F) Incorporated by reference to Registrant's Form 10-K for year ended December 31, 1994.

EXHIBIT 21--SUBSIDIARIES OF THE REGISTRANT

Name -----	State of Incorporation -----
First Merchants Bank, National Association. . . . .	U.S.
Pendleton Banking Company . . . . .	Indiana
First United Bank . . . . .	Indiana

EXHIBIT 23--CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference to Registration Statements on Form S-8, File Numbers 33-28900 and 33-28901, of our report dated January 19, 1996, except for Note 2 as to which the date is January 24, 1996 on the consolidated financial statements of First Merchants Corporation, which report is incorporated by reference in the Annual Report on Form 10-K of First Merchants Corporation.

/s/ Geo. S. Olive & Co. LLC

Indianapolis, Indiana  
March 18, 1996

EXHIBIT 99.1--FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR  
FIRST MERCHANTS CORPORATION EMPLOYEE STOCK PURCHASE PLAN

The annual financial statements and independent auditor's report thereon for First Merchants Corporation Employee Stock Purchase Plan for the year ending June 30, 1996, will be filed as an amendment to the 1995 Annual Report on Form 10-K no later than October 28, 1996.

BY-LAWS  
OF  
FIRST MERCHANTS CORPORATION

ARTICLE I

SECTION 1. NAME. The name of the corporation is First Merchants Corporation ("Corporation").

SECTION 2. PRINCIPAL OFFICE OF THE RESIDENT AGENT. The post office address of the principal office of the Corporation is 200 East Jackson Street, Muncie, Indiana, 47305, and the name of its Resident Agent in charge of such office is Rodney A. Medler.

SECTION 3. SEAL. The seal of the Corporation shall be circular in form and mounted upon a metal die, suitable for impressing the same upon paper. About the upper periphery of the seal shall appear the words "First Merchants Corporation" and about the lower periphery thereof the words "Muncie, Indiana". In the center of the seal shall appear the word "Seal".

ARTICLE II

The fiscal year of the Corporation shall begin each year on the first day of January and end on the last day of December of the same year.

ARTICLE III

CAPITAL STOCK

SECTION 1. NUMBER OF SHARES AND CLASSES OF CAPITAL STOCK. The total number of shares of capital stock which the Corporation shall have authority to issue shall be as stated in the Articles of Incorporation.

SECTION 2. CONSIDERATION FOR NO PAR VALUE SHARES. The shares of stock of the Corporation without par value 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. Upon payment of the consideration fixed by the Board of Directors, such shares of stock shall be fully paid and nonassessable.

SECTION 3. CONSIDERATION FOR TREASURY SHARES. Treasury shares may be disposed of by the Corporation for such consideration as may be determined from time to time by the Board of Directors.

SECTION 4. PAYMENT FOR SHARES. The consideration for the issuance of shares of capital stock of the Corporation may be paid, in whole or in part, in money, in other property, tangible or intangible, or in labor actually performed for, or services actually rendered to the Corporation; provided, however, that the part of the surplus of the Corporation which is transferred to stated capital upon the issuance of shares as a share dividend shall be deemed to be the consideration for the issuance of such shares. When payment of the consideration for which a share was authorized to be issued shall have been received by the Corporation, or when surplus shall have been transferred to stated capital upon the issuance of a share dividend, such share shall be declared and taken to be fully paid and not liable to any further call or assessment, and the holder thereof shall not be liable for any further payments thereon. In the absence of actual fraud in the transaction, the judgment of the Board of Directors as to the value of such property, labor or services received as consideration, or the value placed by the Board of Directors upon the corporate assets in the event of a share dividend, shall be conclusive. Promissory notes, uncertified checks, or future services shall not be accepted in payment or part payment of the capital stock of the Corporation, except as permitted by the Indiana General Corporation Act.

SECTION 5. CERTIFICATE FOR SHARES. Each holder of capital stock of the Corporation shall be entitled to a stock certificate, signed by the President or a Vice President and the Secretary or any Assistant Secretary of the Corporation, with the seal of the Corporation thereto affixed, stating the name of the registered holder, the number of shares represented by such certificate, the par value of each share of stock or that such shares of stock are without par value, and that such shares are fully paid and nonassessable. If such shares are not fully paid, the certificate shall be legibly stamped to indicate the per cent which has been paid, and as further payments are made, the certificate shall be stamped accordingly.

If the Corporation is authorized to issue shares of more than one class, every certificate shall state the kind and class of shares represented thereby, and the relative rights, interests, preferences and restrictions of such class, or a summary thereof; provided, that such statement may be omitted from the certificate if it shall be set forth upon the face or back of the certificate that such statement, in full, will be furnished by the Corporation to any shareholder upon written request and without charge.

SECTION 6. FACSIMILE SIGNATURES. If a certificate is countersigned by the written signature of a transfer agent other than the Corporation or its employee, the signatures of the officers of the Corporation may be facsimiles. If a certificate is countersigned by the written signature of a registrar other than the Corporation or its employee, the signatures of the transfer agent and the officers of the Corporation may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of its issue.

SECTION 7. TRANSFER OF SHARES. The shares of capital stock of the Corporation shall be transferable only on the books of the Corporation upon surrender of the certificate or certificates representing the same, properly endorsed by the registered holder or by his duly authorized attorney or accompanied by proper evidence of succession, assignment or authority to transfer.

SECTION 8. CANCELLATION. Every certificate surrendered to the Corporation for exchange or transfer shall be cancelled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so cancelled, except in cases provided for in Section 10 of this Article III.

SECTION 9. TRANSFER AGENT AND REGISTRAR. The Board of Directors may appoint a transfer agent and a registrar for each class of capital stock of the Corporation and may require all certificates representing such shares to bear the signature of such transfer agent and registrar. Shareholders shall be responsible for notifying the Corporation or transfer agent and registrar for the class of stock held by such shareholder in writing of any changes in their addresses from time to time, and failure so to do shall relieve the Corporation, its shareholders, directors, officers, transfer agent and registrar of liability for failure to direct notices, dividends, or other documents or property to an address other than the one appearing upon the records of the transfer agent and registrar of the Corporation.

SECTION 10. LOST, STOLEN OR DESTROYED CERTIFICATES. The Corporation may cause a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Corporation may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum and in such form as it may direct to indemnify against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificate. The Corporation, in its discretion, may authorize the issuance of such new certificates without any bond when in its judgment it is proper to do so.

SECTION 11. REGISTERED SHAREHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of such shares to receive dividends, to vote as such owner, to hold liable for calls and assessments, and to treat as owner in all other respects, and shall not be bound to recognize any equitable or other claims to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Indiana.

SECTION 12. OPTIONS TO OFFICERS AND EMPLOYEES. The issuance, including the consideration, of rights or options to directors, officers or employees of the Corporation, and not to the shareholders generally, to purchase from the Corporation shares of its capital stock shall be approved by the affirmative vote of the holders of a majority of the shares entitled to vote thereon or shall be authorized by and consistent with a plan approved by such a vote of the shareholders.

#### ARTICLE IV

##### MEETINGS OF SHAREHOLDERS

SECTION 1. PLACE OF MEETING. Meetings of shareholders of the Corporation shall be held at such place, within or without the State of Indiana, as may from time to time be designated by the Board of Directors, or as may be specified in the notices or waivers of notice of such meetings.

SECTION 2. ANNUAL MEETING. The annual meeting of shareholders for the election of Directors, and for the transaction of such other business as may properly come before the meeting, shall be held on the third Tuesday in April of each year, if such day is not a holiday, and if a holiday, then on the first following day that is not a holiday, or in lieu of such day may be held on such other day as the Board of Directors may set by resolution, but not later than the end of the fifth month following the close of the fiscal year of the Corporation. Failure to hold the annual meeting at the designated time shall not work any forfeiture or a dissolution of the Corporation, and shall not affect otherwise valid corporate acts.

SECTION 3. SPECIAL MEETINGS. Special meeting of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Articles of Incorporation, may be called by the Board of Directors or the President and shall be called by the President or Secretary at the request in writing of a majority of the Board of Directors, or at the request in writing of shareholders holding of record not less than one-fourth of all the shares outstanding and entitled by the Articles of Incorporation to vote on the business for which the meeting is being called.

SECTION 4. NOTICE OF MEETINGS. A written or printed notice, stating the place, day and hour of the meeting, and in case of a special meeting, or when required by any other provision of The Indiana General Corporation Act, or of the Articles of Incorporation, as now or hereafter amended, or these By-Laws, the purpose or purposes for which the meeting is called, shall be delivered or mailed by the Secretary, or by the officers or persons calling the meeting, to each shareholder of record entitled by the Articles of Incorporation, as now or hereafter amended, and by The Indiana General Corporation Act to vote at such meeting, at such address as appears upon the records of the Corporation, at least ten (10) days before the date of the meeting. Notice of any such meeting may be waived in writing by any shareholder, if the waiver sets forth in reasonable detail the purpose or purposes for which the meeting is called, and the time and place thereof. Attendance at any meeting in person, or by proxy, shall constitute a waiver of notice of such meeting. Each shareholder, who has in the manner above provided waived notice of a shareholders' meeting, or who personally attends a shareholders' meeting, or is represented thereat by a proxy authorized to appear by an instrument of proxy, shall be conclusively presumed to have been given due notice of such meeting. Notice of any adjourned meeting of shareholders shall not be required to be given if the time and place thereof are announced at the meeting at which the adjournment is taken except as may be expressly required by law.



SECTION 5. ADDRESSES OF SHAREHOLDERS. The address of any shareholder appearing upon the records of the Corporation shall be deemed to be the latest address of such shareholder appearing on the records maintained by the Corporation or its Transfer Agent for the class of stock held by such shareholder.

SECTION 6. VOTING AT MEETINGS.

(a) QUORUM. The holders of record of a majority of the issued and outstanding stock of the Corporation entitled to vote at such meeting, present in person or by proxy, shall constitute a quorum at all meetings of shareholders for the transaction of business, except where otherwise provided by law, the Articles of Incorporation or these By-Laws. In the absence of a quorum, any officer entitled to preside at, or act as secretary of, such meeting shall have the power to adjourn the meeting from time to time until a quorum shall be constituted. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting, but only those shareholders entitled to vote at the original meeting at any adjournment or adjournments thereof unless a new record date is fixed by the Board of Directors for the adjourned meeting.

(b) VOTING RIGHTS. Except as otherwise provided by law or by the provisions of the Articles of Incorporation, every shareholder shall have the right at every shareholder's meeting to one vote for each share of stock having voting power, registered in his name on the books of the Corporation on the date for the determination of shareholders entitled to vote, on all matters coming before the meeting including the election of directors. At any meeting of shareholders, every shareholder having the right to vote shall be entitled to vote in person, or by proxy executed in writing by the shareholder or a duly authorized attorney in fact and bearing a date not more than eleven months prior to its execution, unless a longer time is expressly provided therein.

(c) REQUIRED VOTE. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of The Indiana General Corporation Act or of the Articles of Incorporation or by these By-Laws, a greater vote is required, in which case such express provision shall govern and control the decision of such question.

SECTION 7. VOTING LIST. The Corporation or its Transfer Agent shall make, at least five days before each election of directors, a complete list of the shareholders entitled by the Articles of Incorporation, as now or hereafter amended, to vote at such election, arranged in alphabetical order, with the address and number of shares so entitled to vote held by each, which list shall be on file at the principal office of the Corporation and subject to inspection by any shareholder. Such list shall be produced and kept open at the time and place of election and subject to the inspection of any shareholder during the holding of such election. The original stock register or transfer book, or a duplicate thereof kept in the State of Indiana, shall be the only evidence as to who are the shareholders entitled to examine such list or the stock ledger or transfer book or to vote at any meeting of the shareholders.

SECTION 8. FIXING OF RECORD DATE TO DETERMINE SHAREHOLDERS ENTITLED TO VOTE. The Board of Directors may prescribe a period not exceeding 50 days prior to meetings of the shareholders, during which no transfer of stock on the books of the Corporation may be made; or, in lieu of prohibiting the transfer of stock may fix a day and hour not more than 50 days prior to the holding of any meeting of shareholders as the time as of which shareholders entitled to notice of, and to vote at, such meeting shall be determined, and all persons who are holders of record of voting stock at such time, and no others, shall be entitled to notice of, and to vote at, such meeting. In the absence of such a determination, such date shall be 10 days prior to the date of such meeting.

SECTION 9. NOMINATIONS FOR DIRECTOR. Nominations for election to the Board of Directors may be made by the Board of Directors or by any shareholder of any outstanding class of capital stock of the Corporation entitled to vote for the election of directors. Nominations, other than those made by or on behalf of the existing management of the Corporation, shall be made in writing and shall be delivered or mailed to the president of the Corporation not less than 10 days nor more than 50 days prior to any meeting of shareholders called for the election of directors. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the Corporation that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the Corporation owned by the notifying shareholder. Nominations not made in accordance herewith may, in his discretion, be disregarded by the chairman of the meeting, and upon his instructions, the vote tellers may disregard all votes cast for each such nominee.

#### ARTICLE V

##### BOARD OF DIRECTORS

SECTION 1. ELECTION, NUMBER AND TERM OF OFFICE. Directors shall be elected at the annual meeting of shareholders, or, if not so elected, at a special meeting of shareholders called for that purpose, by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors.

The number of Directors of the Corporation to be elected by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors shall be sixteen unless changed by amendment of this section.

All Directors elected by the holders of such shares, except in the case of earlier resignation, removal or death, shall hold office until their respective successors are chosen and qualified. Directors need not be shareholders of the Corporation.

Any vacancy on the Board of Directors caused by an increase in the number of Directors shall be filled by a majority vote of the members of the Board of Directors, until the next annual or special meeting of the shareholders or, at the discretion of the Board of Directors, such vacancy may be filled by vote of the shareholders at a special meeting called for that purpose. No decrease in the number of Directors shall have the effect of shortening the term of any incumbent Director.

SECTION 2. VACANCIES. Any vacancy occurring in the Board of Directors caused by resignation, death or other incapacity shall be filled by a majority vote of the remaining members of the Board of Directors, until the next annual meeting of the shareholders. If the vote of the remaining members of the Board shall result in a tie, such vacancy, at the discretion of the Board of Directors, may be filled by vote of the shareholders at a special meeting called for that purpose.

SECTION 3. ANNUAL MEETING OF DIRECTORS. The Board of Directors shall meet each year immediately after the annual meeting of the shareholders, at the place where such meeting of the shareholders has been held either within or without the State of Indiana, for the purpose of organization, election of officers, and consideration of any other business that may properly come before the meeting. No notice of any kind to either old or new members of the Board of Directors for such annual meeting shall be necessary.

SECTION 4. REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at such times and places, either within or without the State of Indiana, as may be fixed by the Directors. Such regular meetings of the Board of Directors may be held without notice or upon such notice as may be fixed by the Directors.

SECTION 5. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President, or by not less than a majority of the members of the Board of Directors. Notice of the time and place, either within or without the State of Indiana, of a special meeting shall be served upon or telephoned to each Director at least twenty-four hours, or mailed, telegraphed or cabled to each Director at his usual place of business or residence at least forty-eight hours, prior to the time of the meeting. Directors, in lieu of such notice, may sign a written waiver of notice either before the time of the meeting, at the meeting or after the meeting. Attendance by a director in person at any special meeting shall constitute a waiver of notice.

SECTION 6. QUORUM. A majority of the actual number of Directors elected and qualified, from time to time, shall be necessary to constitute a quorum for the transaction of any business except the filling of vacancies, and the act of a majority of the Directors present at the meeting, at which a quorum is present, shall be the act of the Board of Directors, unless the act of a greater number is required by The Indiana General Corporation Act, by the Articles of Incorporation, or by these By-Laws. A Director, who is present at a meeting of the Board of Directors, at which action on any corporate matter is taken, shall be conclusively presumed to have assented to the action taken, unless (a) his dissent shall be affirmatively stated by him at and before the adjournment of such meeting (in which event the fact of such dissent shall be entered by the secretary of the meeting in the minutes of the meeting), or (b) he shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. The right of dissent provided for by either clause (a) or clause (b) of the immediately preceding sentence shall not be available, in respect of any matter acted upon at any meeting, to a Director who voted at the meeting in favor of such matter and did not change his vote prior to the time that the result of the vote on such matter was announced by the chairman of such meeting.

A member of the Board of Directors may participate in a meeting of the Board by means of a conference telephone or similar communications equipment by which all directors participating in the meeting can communicate with each other, and participation by these means constitutes presence in person at the meeting.

SECTION 7. CONSENT ACTION BY DIRECTORS. Any action required or permitted to be taken at any meeting of the Board of Directors or of 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 8. REMOVAL OF DIRECTORS. Any or all members of the Board of Directors may be removed, with or without cause, at a meeting of shareholders called expressly for that purpose by a vote of the holders of not less than a majority of the outstanding shares of capital stock then entitled to vote at the election of directors.

SECTION 9. DIVIDENDS. The Board of Directors shall have power, subject any restrictions contained in The Indiana General Corporation Act or in the Articles of Incorporation and out of funds legally available therefor, to declare and pay dividends upon the outstanding capital stock of the Corporation as and when they deem expedient. Before declaring any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time in their absolute discretion deem proper for working capital, or as a reserve or reserves to meet contingencies or for such other purposes as the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

SECTION 10. FIXING OF RECORD DATE TO DETERMINE SHAREHOLDERS ENTITLED TO RECEIVE CORPORATE BENEFITS. The Board of Directors may fix a day and hour not exceeding 50 days preceding the date fixed for payment of any dividend or for the delivery of evidence of rights, or for the distribution of other corporate benefits, or for a determination of shareholders for any other purpose, as a record time for the determination of the shareholders entitled to receive any such dividend, rights or distribution, and in such case only shareholders of record at the time so fixed shall be entitled to receive such dividend, rights or distribution. If no record date is fixed for the determination of shareholders entitled to receive payment of a dividend, the end of the day on which the resolution of the Board of Directors declaring such dividend is adopted shall be the record date for such determination.

SECTION 11. 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 12. COMMITTEES. 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 these By-Laws, 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 By-Laws, 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. A member of a committee may participate in a meeting of the committee by means of a conference telephone or similar communications equipment by which all members participating in the meeting can communicate with each other, and participation by these means constitutes presence in person at the meeting.

## ARTICLE VI

### OFFICERS

SECTION 1. PRINCIPAL OFFICERS. The principal officers of the Corporation shall be a Chairman of the Board, Vice Chairman of the Board, a President, one or more Vice Presidents, a Treasurer and a Secretary. The Corporation may also have, at the discretion of the Board of Directors, such other subordinate officers as may be appointed in accordance with the provisions of these By-Laws. Any two or more offices may be held by the same person except the duties of the President and Secretary shall not be performed by the same person. No person shall be eligible for the office of Chairman of the Board, Vice Chairman of the Board, or President who is not a director of the Corporation.

SECTION 2. ELECTION AND TERM OF OFFICE. The principal officers of the Corporation shall be chosen annually by the Board of Directors at the annual meeting thereof. Each such officer shall hold office until his successor shall have been duly chosen and qualified, or until his death, or until he shall resign, or shall have been removed in the manner hereinafter provided.

SECTION 3. REMOVAL. Any principal officer may be removed, either with or without cause, at any time, by resolution adopted at any meeting of the Board of Directors by a majority of the actual number of Directors elected and qualified from time to time.

SECTION 4. SUBORDINATE OFFICERS. In addition to the principal officers enumerated in Section 1 of this Article VI, the Corporation may have one or more Assistant Treasurers, one or more Assistant Secretaries and such other officers, agents and employees as the Board of Directors may deem necessary, each of whom shall hold office for such period, may be removed with or without cause, have such authority, and perform such duties as the President, or the Board of Directors may from time to time determine. The Board of Directors may delegate to any principal officer the power to appoint and to remove any such subordinate officers, agents, and employees.

SECTION 5. RESIGNATIONS. Any officer may resign at any time by giving written notice to the Chairman of the Board or to the Board of Directors or to the President or to the Secretary. Any such resignation shall take effect upon receipt of such notice or at any later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6. VACANCIES. Any vacancy in any office for any cause may be filled for the unexpired portion of the term in the manner prescribed in these By-Laws for election or appointment to such office for such term.

SECTION 7. CHAIRMAN OF THE BOARD. The Chairman of the Board, who shall be chosen from among the Directors, shall preside at all meetings of shareholders and at all meetings of the Board of Directors. He shall perform such other duties and have such other powers as, from time to time, may be assigned to him by the Board of Directors.

SECTION 8. VICE CHAIRMAN OF THE BOARD. The Vice Chairman of the Board, who shall be chosen from among the directors, shall act in the absence of the Chairman of the Board. He shall perform such other duties and have such other power as, from time to time, may be assigned to him by the Board of Directors.

SECTION 9. PRESIDENT. The President, who shall be chosen from among the Directors, shall be the chief executive officer of the Corporation and as such shall have general supervision of the affairs of the Corporation, subject to the control of the Board of Directors. He shall be an ex officio member of all standing committees. In the absence or disability of the Chairman of the Board and Vice Chairman of the Board, the President shall preside all meetings of shareholders and at all meetings of the Board of Directors. Subject to the control and direction of the Board of Directors, the President may enter into any contract or execute and deliver any

instrument in the name and on behalf of the Corporation. In general, he shall perform all duties and have all powers incident to the office of President, as herein defined, and all such other duties and powers as, from time to time, may be assigned to him by the Board of Directors.

SECTION 10. VICE PRESIDENTS. The Vice Presidents in the order of their seniority, unless otherwise determined by the Board of Directors, shall, in the absence or disability of the President and Executive Vice President, perform the duties and exercise the powers of the President. They shall perform such other duties and have such other powers as the President or the Board of Directors may from time to time assign.

SECTION 11. TREASURER. The Treasurer shall have charge and custody of, and be responsible for, all funds and securities of the Corporation and shall deposit all such funds in the name of the Corporation in such banks or other depositories as shall be selected by the Board of Directors. He shall upon request exhibit at all reasonable times his books of account and records to any of the directors of the Corporation during business hours at the office of the Corporation where such books and records shall be kept; shall render upon request by the Board of Directors a statement of the condition of the finances of the Corporation at any meeting of the Board of Directors or at the annual meeting of the shareholders; shall receive, and give receipt for, moneys due and payable to the Corporation from any source whatsoever; and in general, shall perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the President or the Board of Directors. The Treasurer shall give such bond, if any, for the faithful discharge of his duties as the Board of Directors may require.

SECTION 12. SECRETARY. The Secretary shall keep or cause to be kept in the books provided for that purpose the minutes of the meetings of the shareholders and of the Board of Directors; shall duly give and serve all notices required to be given in accordance with the provisions of these By-Laws and by The Indiana General Corporation Act; shall be custodian of the records and of the seal of the Corporation and see that the seal is affixed to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these By-Laws; and, in general, shall perform all duties incident to the office of Secretary and such other duties as may, from time to time, be assigned to him by the President or the Board of Directors.

SECTION 13. SALARIES. The salaries of the principal officers shall be fixed from time to time by the Board of Directors, and the salaries of any subordinate officers may be fixed by the President.

SECTION 14. VOTING CORPORATION'S SECURITIES. Unless otherwise ordered by the Board of Directors, the Chairman of the Board, the President and Secretary, and each of them, are appointed attorneys and agents of the Corporation, and shall have full power and authority in the name and on behalf of the Corporation, to attend, to act, and to vote all stock or other securities entitled to be voted at any meetings of security holders of corporations, or associations in which the Corporation may hold securities, in person or by proxy, as a stockholder or otherwise, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities, and which as the owner thereof the Corporation might have possessed and exercised, if present, or to consent in writing to any action by any such other corporation or association. The Board of Directors by resolution from time to time may confer like powers upon any other person or persons.

ARTICLE VII

INDEMNIFICATION

SECTION 1. 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 interests 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 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 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 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.

#### ARTICLE VIII

##### AMENDMENTS

The power to make, alter, amend, or repeal these By-Laws is vested in the Board of Directors, but the affirmative vote of a majority of the actual number of directors elected and qualified, from time to time, shall be necessary to effect any alteration, amendment or repeal of these By-Laws.



AMMENDMENTS TO THE  
BY-LAWS OF FIRST MERCHANTS CORPORATION  
ARTICLE V

BOARD OF DIRECTORS

SECTION 1. ELECTION, NUMBER AND TERM OF OFFICE. The number of Directors of the Corporation to be elected by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors shall be sixteen (16) unless changed by amendment of this Section by a two-thirds (2/3) vote of the Directors.

The Directors shall be divided into three (3) classes as nearly equal in number as possible, all Directors to serve three (3) year terms, with one class to be elected at each annual meeting of the shareholders, by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors. The classes to be originally elected for terms expiring at the annual meetings of the shareholders to be held in 1986 and 1987 shall each have five (5) Directors, and the class to be originally elected for a term expiring at the annual meeting of the shareholders to be held in 1988 shall have six (6) Directors. No decrease in the number of Directors shall have the effect of shortening the term of any incumbent Director.

All Directors elected by the holders of such shares, except in the case of earlier resignation, removal or death, shall hold office until their respective successors are chosen and qualified. Directors need not be shareholders of the Corporation.

The provisions of this Section of the By-Laws may not be changed or amended except by a two-thirds (2/3) vote of the Board of Directors.

SECTION 2. VACANCIES. Any vacancy occurring in the Board of Directors caused by resignation, death or other incapacity, or an increase in the number of Directors, shall be filled by a majority vote of the remaining members of the Board of Directors, until the next annual meeting of the shareholders, or at the discretion of the Board of Directors, such vacancy may be filled by a vote of the shareholders at a special meeting called for that purpose.

SECTION 8. REMOVAL. Any or 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.

The provisions in this Section of the By-Laws may not be changed or amended except by a two-thirds (2/3) vote of the Board of Directors.

ARTICLE VIII  
AMENDMENTS

Except as expressly provided herein or in the Articles of Incorporation, the Board of Directors may make, alter, amend or repeal these By-Laws by an affirmative vote of a majority of the actual number of Directors elected and qualified.

Dated: February 12, 1985

AMENDMENT TO THE  
BY-LAWS OF FIRST MERCHANTS CORPORATION

RESOLVED that Article V, Section 1, of the By-Laws of the Corporation is hereby amended to read as follows, effective immediately:

SECTION 1. ELECTION, NUMBER AND TERM OF OFFICE.

The number of Directors of the Corporation to be elected by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors shall be fifteen (15) unless changed by amendment of this Section by a two-thirds (2/3) vote of the Board of Directors.

The Directors shall be divided into three (3) classes, all Directors to serve three (3) year terms, with one class to be elected at each annual meeting of the shareholders, by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors. Unless the number of Directors is changed by amendment of this Section, Class I shall have five (5) Directors, Class II shall have six (6) Directors, and Class III shall have four (4) Directors. No decrease in the number of Directors shall have the effect of shortening the term of any incumbent Director.

All Directors elected by the holders of such shares, except in the case of earlier resignation, removal or death, shall hold office until their respective successors are chosen and qualified.

The provisions of this Section of the Bylaws may not be changed or amended except by a two-thirds (2/3) vote of the Board of Directors.

FURTHER RESOLVED that George A. Sissel is hereby elected a Director of the Corporation, and that he shall fill the vacancy in Class I by the increase in the number of Directors.

Date: June 13, 1995

AGREEMENT OF REORGANIZATION AND MERGER

BETWEEN

FIRST MERCHANTS CORPORATION

AND

RANDOLPH COUNTY BANCORP

THIS AGREEMENT OF REORGANIZATION AND MERGER ("Agreement"), is entered this 17th day of January, 1996, by and between FIRST MERCHANTS CORPORATION ("First Merchants") and RANDOLPH COUNTY BANCORP ("Randolph County").

W I T N E S S E T H:

WHEREAS, First Merchants is a corporation duly organized and existing under the laws of the State of Indiana and a registered bank holding company under the Bank Holding Company Act of 1956, as amended, with its principal place of business in Muncie, Delaware County, Indiana.

WHEREAS, Randolph County is a corporation duly organized and existing under the laws of the State of Indiana and a registered bank holding company under the Bank Holding Company Act of 1956, as amended, with its principal place of business in Winchester, Randolph County, Indiana.

WHEREAS, The Randolph County Bank (the "Bank") is a banking institution duly organized and existing under the laws of the State of Indiana and a wholly-owned subsidiary of Randolph County with its principal banking office in Winchester, Randolph County, Indiana.

WHEREAS, it is the desire of First Merchants and Randolph County to effect a transaction whereby the Bank will become a wholly-owned subsidiary of First Merchants through a statutory merger of Randolph County with and into First Merchants.

WHEREAS, a majority of the entire Board of Directors of First Merchants and a majority of the entire Board of Directors of Randolph County have approved this Agreement, designated it as a plan of reorganization within the provisions of Section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended (the "Code"), and authorized its execution.

NOW, THEREFORE, in consideration of the mutual promises, covenants, and agreements herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, First Merchants and Randolph County hereby make this Agreement and prescribe the terms and conditions of the merger of

Randolph County with and into First Merchants and the mode of carrying the transaction into effect as follows:

SECTION 1

THE MERGER

Subject to the terms and conditions of this Agreement, on the Effective Date, as defined in Section 11 hereof, Randolph County shall be merged into and under the Articles of Incorporation of First Merchants, which shall be the "Continuing Company" and which shall continue its corporate existence under the laws of the State of Indiana, pursuant to the provisions of and with the effect provided in the Indiana Business Corporation Law and particularly Indiana Code chapter 23-1-40 (the "Merger").

SECTION 2

EFFECT OF THE MERGER

Upon the Merger becoming effective:

2.01. GENERAL DESCRIPTION. The separate existence of Randolph County shall cease and the Continuing Company shall possess all of the assets of Randolph County including all of the issued and outstanding shares of capital stock of the Bank and all of its rights, privileges, immunities, powers, and franchises and shall be subject to and assume all of the duties and liabilities of Randolph County.

2.02. NAME, OFFICES, AND MANAGEMENT. The name of the Continuing Company shall continue to be "First Merchants Corporation." Its principal banking office shall be located at 200 E. Jackson Street, Muncie, Indiana. The Board of Directors of the Continuing Company, until such time as their successors have been elected and qualified, shall consist of the current Board of Directors of First Merchants. The officers of First Merchants immediately prior to the Effective Date shall continue as the officers of the Continuing Company.

2.03. CAPITAL STRUCTURE. The amount of capital stock of the Continuing Company shall not be less than the capital stock of First Merchants immediately prior to the Effective Date increased by the amount of capital stock issued in accordance with Section 3 hereof.

2.04. ARTICLES OF INCORPORATION AND BYLAWS. The Articles of Incorporation and Bylaws of the Continuing Company shall be those

of First Merchants immediately prior to the Effective Date until the same shall be further amended as provided by law.

2.05. ASSETS AND LIABILITIES. The title to all assets, real estate and other property owned by First Merchants and Randolph County shall vest in the Continuing Company without reversion or impairment. All liabilities of Randolph County shall be assumed by the Continuing Company.

### SECTION 3

#### CONSIDERATION TO BE DISTRIBUTED TO SHAREHOLDERS OF RANDOLPH COUNTY

3.01. CONSIDERATION. Upon and by reason of the Merger becoming effective, shareholders of Randolph County of record on the Effective Date who have not dissented to the Merger in accordance with Indiana Code Section 23-1-44, as amended, shall be entitled to receive twenty and 53/100 (20.53) shares of First Merchants common stock for each share of Randolph County common stock held.

3.02. NO FRACTIONAL FIRST MERCHANTS COMMON SHARES. Certificates for fractional shares of common stock of First Merchants shall not be issued in respect of fractional interests arising from the exchange ratio. Each Randolph County shareholder who would otherwise have been entitled to a fraction of a First Merchants share, upon surrender of all of his/her certificates representing Randolph County common shares, shall be paid in cash in an amount equal to the fraction of the average of the closing price of First Merchants common stock as quoted by NASDAQ for the five business days preceding the Effective Date.

3.03. RECAPITALIZATION. If, between the date of this Agreement and the Effective Date, First Merchants issues a stock dividend with respect to its shares of common stock, combines, subdivides, or splits up its outstanding shares or takes any similar recapitalization action, then the number of shares of First Merchants common stock into which each outstanding Randolph County share will be converted under Section 3.01 hereof shall be adjusted so that each Randolph County shareholder shall receive such number of First Merchants shares as represents the same percentage of outstanding shares of First Merchants common stock at the Effective Date as would have been represented by the number of shares such shareholder would have received if the recapitalization had not occurred.

3.04. DISTRIBUTION OF FIRST MERCHANTS COMMON STOCK AND CASH.

(a) Following the Effective Date, distribution of stock certificates representing First Merchants common stock and cash payments for fractional shares shall be made by First Merchants to each former shareholder of Randolph County within ten (10) days of such shareholder's delivery of his/her certificates representing common stock of Randolph County to the conversion agent, First Merchants Bank (the "Conversion Agent"). Interest shall not accrue or be payable with respect to any cash payments.

(b) Following the Effective Date, stock certificates representing Randolph County common stock shall be deemed to evidence only the right to receive ownership of First Merchants common stock (for all corporate purposes other than the payment of dividends) and cash for fractional shares, as applicable. No dividends or other distributions otherwise payable subsequent to the Effective Date on stock of First Merchants shall be paid to any shareholder entitled to receive the same until such shareholder has surrendered his/her certificates for Randolph County common stock to the Conversion Agent in exchange for certificates representing First Merchants common stock and cash. Upon surrender, there shall be paid to the recordholder of the new certificate(s) evidencing shares of First Merchants common stock, the amount of all dividends and other distributions, without interest thereon, withheld with respect to such common stock.

(c) First Merchants shall be entitled to rely upon the stock transfer books of Randolph County to establish the persons entitled to receive cash and shares of common stock of First Merchants, which books, in the absence of actual knowledge by First Merchants of any adverse claim thereto, shall be conclusive with respect to the ownership of such stock.

(d) With respect to any certificate for shares of Randolph County common stock which has been lost, stolen, or destroyed, First Merchants shall be authorized to issue common stock to the registered owner of such certificate upon receipt of an affidavit of lost stock certificate, in form and substance satisfactory to First Merchants, and upon compliance by the Randolph County shareholder with all procedures historically required by Randolph County in connection with lost, stolen, or destroyed certificates.

SECTION 4

DISSENTING SHAREHOLDERS

Shareholders of Randolph County shall have the rights accorded to dissenting shareholders under Indiana Code Section 23-1-44, as amended.

SECTION 5

REPRESENTATIONS AND  
WARRANTIES OF RANDOLPH COUNTY

Randolph County represents and warrants to First Merchants with respect to itself and the Bank as follows: (For the purposes of this Section, a "Disclosure Letter" is defined as a letter referencing Section 5 of this Agreement which shall be prepared and executed by an authorized executive officer of Randolph County and delivered to and initialed by an authorized executive officer of First Merchants contemporaneous with the execution of this Agreement.)

5.01. ORGANIZATION AND AUTHORITY. Randolph County is a corporation duly organized and validly existing under the laws of the State of Indiana, and Bank is a state banking association duly organized and validly existing under the laws of the State of Indiana. Randolph County and Bank have the power and authority (corporate and other) to conduct their respective businesses in the manner and by the means utilized as of the date hereof. Randolph County's only subsidiary is Bank, and Bank has no subsidiaries. Bank is subject to primary federal regulatory supervision and regulation by the Federal Deposit Insurance Corporation.

5.02. AUTHORIZATION.

(a) Randolph County has the corporate power and authority to enter into this Agreement and to carry out its obligations hereunder. This Agreement, when executed and delivered, will have been duly authorized and will constitute a valid and binding obligation of Randolph County, enforceable in accordance with its terms except to the extent limited by insolvency, reorganization, liquidation, readjustment of debt or other laws of general application relating to or affecting the enforcement of creditors' rights.

(b) Neither the execution of this Agreement, nor the consummation of the transactions contemplated hereby, does or will (i) conflict with, result in a breach of, or constitute

a default under Randolph County's Articles of Incorporation or By-Laws or, to the best of its knowledge, any federal, foreign, state or local law, statute, ordinance, rule, regulation or court or administrative order or decree, or any note, bond, indenture, mortgage, security agreement, contract, arrangement or commitment, to which Randolph County or Bank is subject or bound, the result of which would materially affect the business or financial condition of Randolph County or the Bank; (ii) result in the creation of or give any person the right to create any lien, charge, encumbrance, security interest, or any other rights of others or other adverse interest upon any right, property or asset of Randolph County or Bank; (iii) terminate or give any person, corporation or entity, the right to terminate, amend, abandon, or refuse to perform any note, bond, indenture, mortgage, security agreement, contract, arrangement or commitment to which Randolph County or Bank is subject or bound; or (iv) accelerate or modify, or give any party thereto the right to accelerate or modify, the time within which, or the terms according to which, Randolph County is to perform any duties or obligations or receive any rights or benefits under any note, bond, indenture, mortgage, security agreement, contract, arrangement or commitment.

(c) Other than in connection or in compliance with the provisions of the Bank Holding Company Act of 1956, federal and state securities laws and applicable Indiana banking and corporate statutes, all as amended, and the rules and regulations promulgated thereunder, no notice to, filing with, authorization of, exemption by, or consent or approval of, any public body or authority is necessary for the consummation by Randolph County of the transactions contemplated by this Agreement.

#### 5.03. CAPITALIZATION.

(a) As of December 31, 1995, Randolph County had 60,000 shares of common stock authorized, no par value per share, 27,555 shares of which were issued and outstanding. Such issued and outstanding shares of Randolph County common stock have been duly and validly authorized by all necessary corporate action of Randolph County, are validly issued, fully paid and nonassessable and have not been issued in violation of any preemptive rights of any shareholders. Randolph County has no intention or obligation to authorize or issue additional shares of its common stock. Randolph County has not authorized the issuance of any other class of stock. On a consolidated basis as of December 31, 1995, Randolph County had total capital of \$8,902,996, which consisted of common



stock of \$2,755,500, additional capital of \$709,036, retained earnings of \$5,399,994, and unrealized gain of \$38,466.

(b) As of December 31, 1995, Bank had 1,000 shares of common stock authorized, \$100.00 par value per share, all of which shares were issued and outstanding to Randolph County. Such issued and outstanding shares of Bank common stock have been duly and validly authorized by all necessary corporate action of Bank, are validly issued, fully paid and nonassessable, and have not been issued in violation of any preemptive rights of any Bank shareholders. All the issued and outstanding shares of Bank common stock are owned by Randolph County free and clear of all liens, pledges, charges, claims, encumbrances, restrictions, security interests, options and preemptive rights and of all other rights of any other person, corporation or entity with respect thereto. As of December 31, 1995, Bank had total capital of \$8,906,739, which consisted of common stock of \$100,000, capital surplus of \$2,500,000, undivided profits of \$6,268,273, and unrealized gain of \$38,466.

(c) There are no options, commitments, calls, agreements, understandings, arrangements or subscription rights regarding the issuance, purchase or acquisition of capital stock, or any securities convertible into or representing the right to purchase or otherwise receive the capital stock or any debt securities, of Randolph County or Bank by which Randolph County or Bank is or may become bound. Neither Randolph County or Bank has any outstanding contractual or other obligation to repurchase, redeem or otherwise acquire any of its respective outstanding shares of capital stock.

(d) Except as set forth in the Disclosure Letter, no person or entity beneficially owns 5% or more of Randolph County's outstanding shares of common stock.

5.04. ORGANIZATIONAL DOCUMENTS. The respective Articles of Incorporation or Association and By-Laws of Randolph County and Bank have been delivered to First Merchants and represent true, accurate and complete copies of such corporate documents of Randolph County and Bank in effect as of the date of this Agreement.

5.05. COMPLIANCE WITH LAW. Neither Randolph County nor Bank has engaged in any activity nor taken or omitted to take any action which has resulted or, to the knowledge of Randolph County could result, in the violation of any local, state, federal or foreign law, statute, rule, regulation or ordinance or of any order, injunction, judgment or decree of any court or government agency or

body, the violation of which could materially affect the business, prospects, condition (financial or otherwise) or results of operations of Randolph County or Bank. Randolph County and Bank possess all licenses, franchises, permits and other authorizations necessary for the continued conduct of their respective businesses without material interference or interruption and such licenses, franchises, permits and authorizations shall be transferred to First Merchants on the Effective Date without any restrictions or limitations thereon or the need to obtain any consents of third parties. All agreements and understandings with, and all orders and directives of, all regulatory agencies or government authorities with respect to the business or operations of Randolph County or Bank, including all correspondence, communications and commitments related thereto, are set forth in the Disclosure Letter. Bank has received no inquiries from any regulatory agency or government authority relating to its compliance with the Bank Secrecy Act, the Truth-in-Lending Act or the Community Reinvestment Act or any laws with respect to the protection of the environment or the rules and regulations promulgated thereunder.

5.06. ACCURACY OF STATEMENTS. Neither this Agreement nor any report, statement, list, certificate or other information furnished or to be furnished by Randolph County or Bank to First Merchants in connection with this Agreement or any of the transactions contemplated hereby (including, without limitation, any information which has been or shall be supplied by Randolph County or Bank with respect to their businesses, operations and financial condition for inclusion in the proxy statement and registration statement relating to the Merger) contains or shall contain (in the case of information relating to the proxy statement at the time it is mailed and for the registration statement at the time it becomes effective) any untrue statement of a material fact or omits or shall omit to state a material fact necessary to make the statements contained herein or therein not misleading.

5.07. LITIGATION AND PENDING PROCEEDINGS. Except as set forth in the Disclosure Letter, there are no material claims of any kind, nor any material action, suits, proceedings, arbitrations or investigations pending or to the knowledge of Randolph County or Bank threatened in any court or before any government agency or body, arbitration panel or otherwise (nor does Randolph County or Bank have any knowledge of a basis for any claim, action, suit, proceeding, arbitration or investigation) against, by or materially adversely affecting Randolph County or Bank or their respective officers and/or directors, businesses, prospects, conditions (financial or otherwise), results of operations or assets, or which would prevent the performance of this Agreement or declare the same unlawful or cause the rescission hereof. There are no material uncured violations, or violations with respect to which material refunds or restitutions may be required, cited in any compliance

report to Randolph County or Bank as a result of an examination by any regulatory agency or body.

5.08. FINANCIAL STATEMENTS.

(a) Randolph County's consolidated balance sheets as of the end of the three fiscal years ended December 31, 1992, 1993 and 1994 and the nine months ended September 30, 1995 and the related consolidated statements of income, shareholders' equity and cash flows for the years or period then ended (hereinafter collectively referred to as the "Financial Information") present fairly the consolidated financial condition or position of Randolph County as of the respective dates thereof and the consolidated results of operations of Randolph County for the respective periods covered thereby and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. All required regulatory reports have been filed by Randolph County and Bank with their respective primary federal regulators during 1995, 1994, 1993 and 1992, are true, accurate and complete and were prepared in conformity with generally accepted regulatory accounting principles applied on a consistent basis.

(b) All loans reflected in the Financial Information and which have been made, extended or acquired since September 30, 1995, (i) have been made for good, valuable and adequate consideration in the ordinary course of business; (ii) constitute the legal, valid and binding obligation of the obligor and any guarantor named therein; (iii) are evidenced by notes, instruments or other evidences of indebtedness which are true, genuine and what they purport to be; and (iv) to the extent that Bank has a security interest in collateral or a mortgage securing such loans, are secured by perfected security interests or mortgages naming Bank as the secured party or mortgagee.

5.09. ABSENCE OF CERTAIN CHANGES. Except for events and conditions relating to the business environment in general or as set forth in the Disclosure Letter, since September 30, 1995, no events or conditions of any character, whether actual, threatened or contemplated, have occurred, or, to the knowledge of Randolph County, can reasonably be expected to occur, which materially adversely affect Randolph County's or Bank's business, prospects, conditions (financial or otherwise), assets or results of operations or which have caused, or can reasonably be expected to cause, Randolph County's or Bank's business to be conducted in a materially less profitable manner than prior to September 30, 1995.

5.10. ABSENCE OF UNDISCLOSED LIABILITIES. Neither Randolph County nor Bank is a party to any agreement, contract, obligation, commitment, arrangement, liability, lease or license which individually exceeds \$10,000 per year or which may not be terminated within one year from the date of this Agreement, except as set forth in the Disclosure Letter and except for unfunded loan commitments made in the ordinary course of Bank's business consistent with past practices, nor to the knowledge of Randolph County, does there exist any circumstances resulting from transactions effected or to be effected or events which have occurred or may occur or from any action taken or omitted to be taken which could reasonably be expected to result in any such agreement, contract, obligation, commitment, arrangement, liability, lease or license.

5.11. TITLE TO ASSETS. Except as set forth in the Disclosure Letter, Randolph County and Bank have good and marketable title in fee simple absolute to all real property (including, without limitation, all real property used as bank holding company or bank premises and all other real estate owned) and personal property reflected in the Financial Information as of September 30, 1995, good and marketable title to all other properties and assets which Randolph County or Bank purport to own, good and marketable title to or right to use by terms of lease or contract all other property used in Randolph County's or Bank's business and good and marketable title to all property and assets acquired since September 30, 1995, free and clear of all mortgages, liens, pledges, restrictions, security interests, charges, claims or encumbrances of any nature. All real property owned by Randolph County or Bank is in compliance with all applicable zoning laws and all laws, statutes, rules, regulations and ordinances relating to the environment, pollution and the treatment, storage, disposal, discharge or release of chemicals and hazardous or toxic substances or wastes.

5.12. LOANS AND INVESTMENTS.

(a) Except as set forth in the Disclosure Letter, there is no loan of Bank in excess of \$10,000 that has been classified by bank regulatory examiners as "Other Loans Specially Mentioned," "Substandard," "Doubtful" or "Loss," nor is there any loan of Bank in excess of \$10,000 that has been identified by accountants or auditors (internal or external) as having a significant risk of uncollectibility. Bank's loan watch list and all loans in excess of \$10,000 that Bank's management has determined to be ninety (90) days or more past due with respect to principal or interest or has placed on nonaccrual status are set forth in the Disclosure Letter.

(b) Each of the reserves and allowances for possible loan losses and the carrying value for real estate owned which are shown on the Financial Information is, in the opinion of Randolph County and Bank, adequate in all material respects under the requirements of generally accepted accounting principles applied on a consistent basis to provide for possible losses on loans outstanding and real estate owned as of the date of such Financial Information.

(c) Except as set forth in the Disclosure Letter, none of the investments reflected in the Financial Information and none of the investments made by Randolph County or Bank since September 30, 1995 is subject to any restrictions, whether contractual or statutory, which materially impairs the ability of Randolph County or Bank to dispose freely of such investment at any time. Except as set forth in the Disclosure Letter, neither Randolph County nor Bank are a party to any repurchase agreements with respect to securities.

#### 5.13. EMPLOYEE BENEFIT PLANS.

(a) The Disclosure Letter contains a list identifying each "employee benefit plan," as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which (i) is subject to any provision of ERISA, and (ii) is maintained, administered or contributed to by Randolph County or Bank and covers any employee or former employee of Randolph County or Bank under which Randolph County or Bank has any liability. Copies of such plans (and, if applicable, related trust agreements or insurance contracts) and all amendments thereto and written interpretations thereof have been furnished to First Merchants together with the three most recent annual reports prepared in connection with any such plan and the current summary plan descriptions. Such plans are hereinafter referred to individually as an "Employee Plan" and collectively as the "Employee Plans." The Employee Plans which individually or collectively would constitute an "employee pension benefit plan" as defined in Section 3(2) of ERISA are identified in the list referred to above.

(b) The Employee Plans comply with and have been operated in accordance with all applicable laws, regulations, rulings and other requirements the breach or violation of which could materially affect Randolph County, Bank, or an Employee Plan. Each Employee Plan has been administered in substantial conformance with such requirements and all reports and information required with respect to each Employee Plan has been timely given.

(c) No "prohibited transaction," as defined in Section 406 of ERISA or Section 4975 of the Code, for which no statutory or administrative exemption exists, and no "reportable event," as defined in Section 4043(b) of ERISA, has occurred with respect to any Employee Plan. Neither Randolph County or Bank has any liability to the Pension Benefit Guaranty Corporation ("PBGC"), to the Internal Revenue Service ("IRS"), to the Department of Labor ("DOL") or to an employee or Employee Plan beneficiary under Section 502 of ERISA.

(d) No "fiduciary," as defined in Section (3)(21) of ERISA, of an Employee Plan has failed to comply with the requirements of Section 404 of ERISA.

(e) Each of the Employee Plans which is intended to be qualified under Code Section 401(a) has been amended to comply in all material respects with the applicable requirements of the Code, including the Tax Reform Act of 1986, the Revenue Act of 1987, the Technical and Miscellaneous Revenue Act of 1988, the Omnibus Budget Reconciliation Act of 1989, the Revenue Reconciliation Act of 1990, the Tax Extension Act of 1991, the Unemployment Compensation Amendments of 1992, the Omnibus Budget Reconciliation Act of 1993, and the Retirement Protection Act of 1994 and any rules, regulations or other requirements promulgated thereunder (the "Acts"). In addition, each such Employee Plan has been and is being operated in substantial conformance with the applicable provisions of ERISA and the Code, as amended by the Acts. Except as set forth in the Disclosure Letter, Randolph County and/or Bank, as applicable, sought and received favorable determination letters from the IRS within the applicable remedial amendment periods under Code Section 401(b), and has furnished to First Merchants copies of the most recent IRS determination letters with respect to any such Employee Plan.

(f) Except as set forth in the Disclosure Letter, no Employee Plan owns any security of Randolph County or Bank.

(g) No Employee Plan has incurred an "accumulated funding deficiency," as determined under Code Section 412 and ERISA Section 302.

(h) No Employee Plan has been terminated or incurred a partial termination (either voluntarily or involuntarily).

(i) No claims against an Employee Plan, Randolph County or Bank, with respect to an Employee Plan, (other than normal benefit claims) have been asserted or threatened.

(j) There is no contract, agreement, plan or arrangement covering any employee or former employee of Randolph County or Bank that, individually or collectively, could give rise to the payment of any amount that would not be deductible by reason of Section 280G or Section 162(a)(1) of the Code.

(k) No event has occurred that would cause the imposition of the tax described in Code Section 4980B. All requirements of ERISA Section 601 have been met.

(l) The Disclosure Letter contains a list of each employment, severance or other similar contract, arrangement or policy and each plan or arrangement (written or oral) providing for insurance coverage (including any self-insured arrangements), workers' compensation, disability benefits, supplemental unemployment benefits, vacation benefits, retirement benefits or deferred compensation, profit sharing, bonuses, stock options, stock appreciation or other forms of incentive compensation or post-retirement insurance, compensation or benefits which (i) is not an Employee Plan, (ii) was entered into, maintained or contributed to, as the case may be, by Randolph County or Bank and (iii) covers any employee or former employee of Randolph County or Bank. Such contracts, plans and arrangements as are described above, copies or descriptions of all of which have been furnished previously to First Merchants, are hereinafter referred to collectively as the "Benefit Arrangements." Each of the Benefit Arrangements has been maintained in substantial compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations which are applicable to such Benefit Arrangements.

(m) Except as set forth in the Disclosure Letter, neither Randolph County nor Bank has any present or future liability in respect of post-retirement health or medical benefits for former employees of Randolph County or Bank.

(n) Except as set forth in the Disclosure Letter, there has been no amendment to, written interpretation or announcement (whether or not written) by Randolph County or Bank relating to, or change in employee participation or coverage under, any Employee Plan or Benefit Arrangement which would increase materially the expense of maintaining such Employee Plans or Benefit Arrangements above the level of the expense incurred in respect thereof for the fiscal year ended December 31, 1994.

(o) For purposes of this Section 5.13, references to Randolph County or Bank are deemed to include (i) all predecessors of Randolph County or Bank, (ii) any subsidiary

of Randolph County or Bank, (iii) all members of any controlled group (as determined under Code Section 414(b) or (c)) that includes Randolph County or Bank, and (iv) all members of any affiliated service group (as determined under Code Section 414(m) or (n)) that includes Randolph County or Bank.

5.14 OBLIGATIONS TO EMPLOYEES. Except as set forth in the Disclosure Letter, all accrued obligations and liabilities of Randolph County and Bank, whether arising by operation of law, by contract or by past custom, for payments to trust or other funds, to any government agency or body or to any individual director, officer, employee or agent (or his heirs, legatees or legal representative) with respect to unemployment compensation or social security benefits and all pension, retirement, savings, stock purchase, stock bonus, stock ownership, stock option, stock appreciation rights or profit sharing plan, any employment, deferred compensation, consultant, bonus or collective bargaining agreement or group insurance contract or other incentive, welfare or employee benefit plan or agreement maintained by Randolph County or Bank for their current or former directors, officers, employees and agents have been and are being paid to the extent required by law or by the plan or contract, and adequate actuarial accruals and/or reserves for such payments have been and are being made by Randolph County or Bank in accordance with generally accepted accounting and actuarial principles. All obligations and liabilities of Randolph County and Bank, whether arising by operation of law, by contract, or by past custom, for all forms of compensation which are or may be payable to their current or former directors, officers, employees or agents have been and are being paid, and adequate accruals and/or reserves for payment therefor have been and are being made in accordance with generally accepted accounting principles. All accruals and reserves referred to in this Section 5.14, are correctly and accurately reflected and accounted for in the books, statements and records of Randolph County and Bank.

5.15. TAXES, RETURNS AND REPORTS. Randolph County and Bank have (a) duly filed all federal, state, local and foreign tax returns of every type and kind required to be filed as of the date hereof, and each return is true, complete and accurate in all material respects; (b) paid in all materials respects all taxes, assessments and other governmental charges due or claimed to be due upon them or any of their income, properties or assets; and (c) not requested an extension of time for any such payments (which extension is still in force). Except for taxes not yet due and payable, the reserve for taxes on the Financial Information is adequate to cover all of Randolph County's and Bank's tax liabilities (including, without limitation, income taxes and franchise fees) that may become payable in future years with



respect to any transactions consummated prior to December 31, 1994. Neither Randolph County nor Bank has or will have, any liability for taxes of any nature for or with respect to the operation of their business, including the assets of any subsidiary, from December 31, 1994 up to and including the Effective Date, except to the extent reflected on their Financial Information or on financial statements of Randolph County or Bank subsequent to such date and as set forth in the Disclosure Letter. Neither Randolph County nor Bank is currently under audit by any state or federal taxing authority. Except as set forth in the Disclosure Letter, neither the federal, state, or local tax returns of Randolph County or Bank have been audited by any taxing authority during the past five (5) years.

5.16. DEPOSIT INSURANCE. The deposits of Bank are insured by the Federal Deposit Insurance Corporation ("FDIC") in accordance with the Federal Deposit Insurance Act, and Bank has paid all premiums and assessments with respect to such deposit insurance.

5.17. BROKER'S OR FINDER'S FEES. Except as set forth in the Disclosure Letter, no agent, broker or other person acting on behalf of Randolph County or Bank or under any authority of Randolph County or Bank is or shall be entitled to any commission, broker's or finder's fee or any other form of compensation or payment from any of the parties hereto, other than attorneys' or accountants' fees, in connection with any of the transactions contemplated by this Agreement.

5.18. BRING DOWN OF REPRESENTATIONS AND WARRANTIES. All representations and warranties of Randolph County and Bank contained in this Section 5 shall be true, accurate and correct on and as of the Effective Date except as affected by the transactions contemplated by and specified within the terms of this Agreement.

5.19. NONSURVIVAL OF REPRESENTATIONS AND WARRANTIES. The representations and warranties contained in this Section 5 shall expire on the Effective Date, and thereafter Randolph County and Bank and all directors, officers and employees of Randolph County and Bank shall have no further liability with respect thereto unless a court of competent jurisdiction should determine that any misrepresentation or breach of a warranty was willfully or intentionally caused either by action or inaction.

SECTION 6

REPRESENTATIONS AND  
WARRANTIES OF FIRST MERCHANTS

First Merchants hereby represents and warrants to Randolph County as follows:

6.01. ORGANIZATION AND QUALIFICATION. First Merchants is a corporation organized and existing under the laws of the State of Indiana and has the corporate power and authority to conduct its business in the manner and by the means utilized as of the date hereof.

6.02. AUTHORIZATION.

(a) First Merchants has the corporate power and authority to enter into this Agreement and to carry out its obligations hereunder subject to certain required regulatory approvals. The Agreement, when executed and delivered, will have been duly authorized and will constitute a valid and binding obligation of First Merchants, enforceable in accordance with its terms, except to the extent limited by insolvency, reorganization, liquidation, readjustment of debt, or other laws of general application relating to or affecting the enforcement of creditor's rights.

(b) Neither the execution of this Agreement, nor the consummation of the transactions contemplated hereby, does or will (i) conflict with, result in a breach of, or constitute a default under First Merchant's Articles of Incorporation or By-laws or, to the best of its knowledge, any federal, foreign, state, or local law, statute, ordinance, rule, regulation, or court or administrative order or decree, or any note, bond, indenture, mortgage, security agreement, contract, arrangement, or commitment, to which First Merchants is subject or bound, the result of which would materially affect the business or financial condition of First Merchants; (ii) result in the creation of or give any person the right to create any lien, charge, claim, encumbrance, security interest, or any other rights of others or other adverse interest upon any right, property or asset of First Merchants; (iii) terminate or give any person, corporation or entity the right to terminate, amend, abandon, or refuse to perform any note, bond, indenture, mortgage, security agreement, contract, arrangement, or commitment to which First Merchants is a party or by which First Merchant is subject or bound; or (iv) accelerate or modify, or give any party thereto the right to accelerate or modify, the time within which, or the terms according to which, First Merchants is to perform any duties

or obligations or receive any rights or benefits under any note, bond, indenture, mortgage, security agreement, contract, arrangement, or commitment.

(c) Other than in connection or in compliance with the provisions of the Bank Holding Company Act of 1956, federal and state securities laws, and applicable Indiana banking and corporate statutes, all as amended, and the rules and regulations promulgated thereunder, no notice to, filing with, authorization of, exemption by, or consent or approval of, any public body or authority is necessary for the consummation by First Merchants of the transactions contemplated by this Agreement.

6.03. CAPITALIZATION.

(a) At December 31, 1995 First Merchants had 20,000,000 authorized, no par value, of which 5,053,901 shares were issued and outstanding. The 5,053,901 shares of common stock are validly issued, fully paid and nonassessable.

(b) First Merchants has 500,000 shares of Preferred Stock authorized, no par value, no shares of which have been issued and no commitments exist to issue any of such shares.

(c) Other than in connection with the proposed merger of Union National Bancorp with and into First Merchants and pursuant to First Merchant's Dividend Reinvestment and Stock Purchase Plan, Stock Option Plans and Employee Stock Purchase Plans, there are no options, commitments, calls or agreements outstanding regarding the issuance of capital stock or any securities representing the right to purchase or otherwise receive such stock, or any debt securities of First Merchants. First Merchants does not have any outstanding contractual obligation to repurchase, redeem, or otherwise acquire any of its outstanding shares of capital stock.

(d) The shares of First Merchants' common stock to be issued pursuant to the Merger will be fully paid, validly issued and nonassessable.

6.04. ORGANIZATIONAL DOCUMENTS. The Articles of Incorporation and By-laws of First Merchants in force as of the date hereof, have been delivered to Randolph County. The documents delivered by it represent complete and accurate copies of the corporate documents of First Merchants in effect as of the date of this Agreement.

6.05. ACCURACY OF STATEMENTS. Neither this Agreement nor any report, statement, list, certificate or other information furnished

or to be furnished by First Merchants to Randolph County in connection with this Agreement or any of the transactions contemplated hereby (including, without limitation, any information which has been or shall be supplied by First Merchants with respect to its business, operations and financial condition for inclusion in the proxy statement and registration statement relating to the Merger) contains or shall contain (in the case of information relating to the proxy statement at the time it is mailed and to the registration statement at the time it become effective) any untrue statement of a material fact or omits or shall omit to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances in which they are made, not misleading.

6.06. COMPLIANCE WITH LAW. First Merchants has not engaged in any activity nor taken or omitted to take any action which has resulted or, to the knowledge of First Merchants, could result in the violation of any local, state, federal or foreign law, statute, rule, regulation or ordinance or of any order, injunction, judgment or decree of any court or government agency or body, the violation of which could materially adversely affect the business, prospects, condition (financial or otherwise) or results of operations of First Merchants. First Merchants possesses all licenses, franchises, permits and other authorizations necessary for the continued conduct of its business without material interference or interruption. There are no agreements or understandings with, nor any orders or directives of, any regulatory agencies or government authorities, which would have a material adverse effect on the consolidated financial position of First Merchants. First Merchants has received no written inquiries from any regulatory agency or government authority relating to its compliance with the Bank Secrecy Act, the Truth-in-Lending Act or the Community Reinvestment Act.

6.07. FINANCIAL STATEMENTS. First Merchants consolidated balance sheets as of the end of the three (3) fiscal years ended December 31, 1992, 1993 and 1994 and the nine months ended September 30, 1995 and the related consolidated statements of income, shareholders' equity and cash flows for the years or period then ended present fairly the consolidated financial condition or position of First Merchants as of the respective dates thereof and the consolidated results of operations of First Merchants for the respective periods covered thereby and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. All required regulatory reports have been filed by First Merchants with its primary federal regulator during 1995, 1994, 1993 and 1992, are true, accurate and complete and have been prepared in conformity with generally accepted regulatory accounting principles applied on a consistent basis.

6.08. ABSENCE OF CERTAIN CHANGES. Except for events and conditions relating to the business environment in general, since September 30, 1995, no events or conditions of any character, whether actual, threatened or contemplated, have occurred, or can reasonably be expected to occur, which materially adversely affect First Merchants consolidated business, prospects, conditions (financial or otherwise), assets or results of operations or which have caused, or can reasonably be expected to cause, First Merchants business, on a consolidated basis, to be conducted in a materially less profitable manner than prior to September 30, 1995.

6.09. FIRST MERCHANTS SECURITIES AND EXCHANGE COMMISSION FILINGS. First Merchants has filed all reports and other documents required to be filed by it under the Securities Exchange Act of 1934 and the Securities Act of 1933, including First Merchants' Annual Report on Form 10-K for the year ended December 31, 1994, and Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, copies of which have previously been delivered to Randolph County.

6.10. BRING DOWN OF REPRESENTATIONS AND WARRANTIES. All representations and warranties of First Merchants contained in this Section 6 shall be true, accurate and correct on and as of the Effective Date except as affected by the transactions contemplated by and specified within the terms of this Agreement.

6.11. NONSURVIVAL OF REPRESENTATIONS AND WARRANTIES. The representations and warranties contained in this Section 6 shall expire on the Effective Date, and thereafter First Merchants and all directors, officers and employees of First Merchants shall have no further liability with respect thereto unless a court of competent jurisdiction should determine that any misrepresentation or breach of a warranty was willfully or intentionally caused either by action or inaction.

## SECTION 7

### COVENANTS OF RANDOLPH COUNTY

Randolph County covenants and agrees with First Merchants, and covenants and agrees to cause Bank to act, as follows:

7.01. SHAREHOLDER APPROVAL. Randolph County shall submit this Agreement to its shareholders for approval at a meeting to be called and held in accordance with applicable law and the Articles of Incorporation and By-Laws of Randolph County at the earliest possible reasonable date, and the Board of Directors of Randolph County shall subject to their fiduciary duties recommend to the

shareholders of Randolph County that such shareholders approve this Agreement.

7.02. OTHER APPROVALS. Randolph County and Bank shall proceed expeditiously, cooperate fully and use their best efforts to procure upon reasonable terms and conditions all consents, authorizations, approvals, registrations and certificates, to complete all filings and applications and to satisfy all other requirements prescribed by law which are necessary for consummation of the Merger on the terms and conditions provided in this Agreement at the earliest possible reasonable date.

7.03. CONDUCT OF BUSINESS.

(a) On and after the date of this Agreement and until the Effective Date or until this Agreement shall be terminated as herein provided, neither Randolph County nor Bank shall, without the prior written consent of First Merchants, (i) make any material changes in their capital structure; (ii) authorize a class of stock or issue, or authorize the issuance of, stock other than or in addition to the outstanding stock as set forth in Section 5.03 hereof; (iii) declare, distribute or pay any dividends on their shares of common stock, or authorize a stock split, or make any other distribution to their shareholders, except for (a) the payment by Randolph County prior to the Effective Date of quarterly cash dividends on its common stock in April, 1996 (for the first fiscal quarter) and July, 1996 (for the second fiscal quarter), which dividends shall not exceed One and 50/100 Dollars (\$1.50) and One and 50/100 Dollars (\$1.50) per share, respectively, provided that Randolph County shall not pay any such dividend with respect to any fiscal quarter in which the Merger shall become effective and in which Randolph County shareholders will become entitled to receive dividends on the shares of First Merchants into which the shares of Randolph County have been converted, and (b) the payment by the Bank to Randolph County of dividends to pay Randolph County's expenses of operations and its business and payment of fees and expenses incurred in connection with the transactions contemplated by this Agreement; (iv) merge, combine or consolidate with or sell their assets or any of their securities to any other person, corporation or entity, effect a share exchange or enter into any other transaction not in the ordinary course of business; (v) incur any liability or obligation, make any commitment, payment or disbursement, enter into any contract, agreement, understanding or arrangement or engage in any transaction, or acquire or dispose of any property or asset having a fair market value in excess of \$10,000.00 (except for personal or real property acquired or disposed of in connection with foreclosures on mortgages or enforcement of

security interests and loans made or sold by Bank in the ordinary course of business); (vi) subject any of their properties or assets to a mortgage, lien, claim, charge, option, restriction, security interest or encumbrance; (vii) promote or increase or decrease the rate of compensation (except for promotions and non-material increases in the ordinary course of business and in accordance with past practices) or enter into any agreement to promote or increase or decrease the rate of compensation of any director, officer or employee of Randolph County or Bank; (viii) execute, create, institute, modify or amend any pension, retirement, savings, stock purchase, stock bonus, stock ownership, stock option, stock appreciation or depreciation right or profit sharing plans, any employment, deferred compensation, consultant, bonus or collective bargaining agreement, group insurance contract or other incentive, welfare or employee benefit plan or agreement for current or former directors, officers or employees of Randolph County or Bank, change the level of benefits or payments under any of the foregoing or increase or decrease any severance or termination of pay benefits or any other fringe or employee benefits other than as required by law or regulatory authorities; (ix) amend their Articles of Incorporation or By-Laws from those in effect on the date of this Agreement; (x) modify, amend or institute new employment policies or practices, or enter into, renew or extend any employment or severance agreements with respect to any present or former Randolph County or Bank directors, officers or employees; (xi) give, dispose, sell, convey, assign, hypothecate, pledge, encumber or otherwise transfer or grant a security interest in any common stock of Bank; and (xii) fail to make additions to Bank's reserve for loan, losses, or any other reserve account, in the ordinary course of business and in accordance with sound banking practices.

(b) Randolph County and Bank shall maintain, or cause to be maintained, in full force and effect insurance on its properties and operations and fidelity coverage on its directors, officers and employees in such amounts and with regard to such liabilities and hazards as customarily are maintained by other companies operating similar businesses.

(c) Randolph County and Bank shall continue to give to First Merchants and its employees, accountants, attorneys and other authorized representatives reasonable access during regular business hours and other reasonable times to all their premises, properties, statements, books and records.

7.04. PRESERVATION OF BUSINESS. On and after the date of this Agreement and until the Effective Date or until this Agreement is terminated as herein provided. Randolph County and Bank each

shall (a) carry on their business diligently, substantially in the same manner as heretofore conducted, and in the ordinary course of business; (b) use their best efforts to preserve their business organizations intact, to keep their present officers and employees and to preserve their present relationship with customers and others having business dealings with them; and (c) not do or fail to do anything which will cause a material breach of, or material default in, any contract, agreement, commitment, obligation, understanding, arrangement, lease or license to which they are a party or by which they are or may be subject or bound.

7.05. OTHER NEGOTIATIONS. Except with the prior written approval of First Merchants, on and after the date of this Agreement and until the Effective Date, Randolph County and Bank shall not, and shall not permit or authorize their respective directors, officers, employees, agents or representatives to, directly or indirectly, initiate, solicit, encourage, or engage in discussions or negotiations with, or provide information to, any corporation, association, partnership, person or other entity or group concerning any merger, consolidation, share exchange, combination, purchase or sale of substantial assets, sale of shares of capital stock (or securities convertible or exchangeable into or otherwise evidencing, or any agreement or instrument evidencing the right to acquire, capital stock), tender offer, acquisition of control of Randolph County or Bank or similar transaction involving Randolph County or Bank (all such transactions hereinafter referred to as "Acquisition Transactions"). Randolph County and Bank shall promptly communicate to First Merchants the terms of any proposal, written or oral, which either may receive with respect to an Acquisition Transaction and any request by or indication of interest on the part of any third party with respect to initiation of any Acquisition Transaction or discussion with respect thereto.

7.06. RESTRICTIONS REGARDING AFFILIATES. Randolph County shall, within 30 days after the date of this Agreement and promptly thereafter until the Effective Date to reflect any changes, provide First Merchants with a list identifying each person who may be deemed to be an "affiliate" of Randolph County for purposes of Rule 145 under the Securities Act of 1933, as amended ("1933 Act"). Each director, executive officer and other person who is an "affiliate" of Randolph County for purposes of the 1933 Act shall deliver to First Merchants on or prior to the Effective Date hereunder a written agreement, in form and substance satisfactory to counsel to First Merchants, providing that such person will not sell, pledge, transfer, dispose of or otherwise reduce his market risk with respect to shares of First Merchants common stock to be received by such person pursuant to this Agreement (a) during the period 30 days prior to the Effective Date, (b) until such time as financial results covering at least 30 days of combined operations of First Merchants and Randolph County have been published within



the meaning of Section 201.01 of the Securities and Exchange Commission's Codification of Financial Reporting Policies, and (c) unless such sales are pursuant to an effective registration statement under the 1933 Act or pursuant to Rule 145 of the Securities and Exchange Commission or another exemption from the 1933 Act.

7.07. PRESS RELEASE. Neither Randolph County or Bank shall issue any press releases or make any other public announcements or disclosures relating to the Merger without the prior approval of First Merchants.

7.08. DISCLOSURE LETTER UPDATE. Randolph County shall promptly supplement, amend and update monthly and as of the Effective Date the Disclosure Letter with respect to any matters hereafter arising which, if in existence or having occurred as of the date of this Agreement, would have been required to be set forth or described in the Disclosure Letter.

## SECTION 8

### COVENANTS OF FIRST MERCHANTS

First Merchants covenants and agrees with Randolph County as follows:

8.01. APPROVALS. First Merchants shall proceed expeditiously, cooperate fully and use its best efforts to procure upon reasonable terms and conditions all consents, authorizations, approvals, registrations and certificates, to complete all filings and applications and to satisfy all other requirements prescribed by law which are necessary for consummation of the Merger on the terms and conditions provided in this Agreement. First Merchants shall provide Randolph County with copies of proposed regulatory filings in connection with the Merger and afford Randolph County the opportunity to offer comment on the filings before filing. The approval of First Merchants shareholders of the transactions contemplated by this Agreement is not required.

8.02. EMPLOYEE BENEFIT PLANS. Within one (1) year following the Effective Date, First Merchants will permit Bank employees to participate in any tax-qualified retirement plan First Merchants maintains for its employees, provided that such an employee meets the applicable participation requirements, in lieu of the Bank's current tax-qualified retirement plan. Until that time, the Bank's current tax-qualified retirement plan will be maintained at the same level, with respect to benefit accruals, provided for on the Effective Date. Following the Effective Date, Bank employees will otherwise receive employee benefits that in the aggregate are

substantially comparable to the employee benefits provided to those employees by Randolph County or the Bank on the Effective Date. For purposes of determining a Randolph County or Bank employee's eligibility and vesting service under a First Merchant's employee benefit plan that the employee is permitted to enter, service with Randolph County or Bank will be treated as service with First Merchants; provided, however, that service with Randolph County or Bank will not be treated as service with First Merchants for purposes of benefit accrual.

8.03. FIRST MERCHANTS BOARD OF DIRECTORS. In connection with the first annual meeting of the shareholders of First Merchants following the Effective Date, First Merchants shall cause all necessary action to be taken to cause the current Chairman of the Board of the Bank, Michael Wickersham, to be nominated for election as a member of the First Merchants' Board of Directors for a three (3)-year term.

8.04. PRESS RELEASE. Except as required by law, First Merchants shall not issue any press release to any national wire service relating solely to the Merger without the prior approval of Randolph County.

8.05. CONFIDENTIALITY. First Merchants shall, and shall use its best efforts to cause its officers, employees, and authorized representatives to, hold in strict confidence all confidential data and information obtained by it from Randolph County or Bank, unless such information (i) was already known to First Merchants, (ii) becomes available to First Merchants from other sources, (iii) is independently developed by First Merchants, (iv) is disclosed outside of First Merchants with and in accordance with the terms of prior written approval of Randolph County or Bank, or (v) is or becomes readily ascertainable from public or published information or trade sources or public disclosure of such information is required by law or requested by a court or other governmental agency, commission, or regulatory body. First Merchants further agrees that in the event the Agreement is terminated, it will return to Randolph County all information obtained by First Merchants regarding Randolph County or Bank, including all copies made of such information by First Merchants.

8.06. COVENANTS REGARDING THE BANK. Upon consummation of the Merger, the Bank shall be a bank organized under the laws of the State of Indiana and the officers and directors of the Bank in office immediately prior to the consummation of the Merger shall be the officers and directors of the Bank at the Effective Date subject to the provisions of the Bank's Articles of Incorporation and By-Laws. The Bank directors will be subject to First Merchants' policy of mandatory retirement at age seventy (70); provided, however, the policy of mandatory retirement will not

apply to any of the Bank's current directors until twelve (12) months after the Effective Date. First Merchants intends to continue to operate the Bank as an operating subsidiary of First Merchants under the name "The Randolph County Bank."

## SECTION 9

### CONDITIONS PRECEDENT TO THE MERGER

The obligation of each of the parties hereto to consummate the transaction contemplated by this Agreement is subject to the satisfaction and fulfillment of each of the following conditions on or prior to the Effective Date:

9.01. SHAREHOLDER APPROVAL. The shareholders of Randolph County shall have approved, ratified and confirmed this Agreement as required by applicable law.

9.02. REGISTRATION STATEMENT EFFECTIVE. First Merchants shall have registered its shares of common stock to be issued to shareholders of Randolph County in accordance with this Agreement with the Securities and Exchange Commission pursuant to the 1933 Act, and all state securities and "blue sky" approvals and authorizations required to offer and sell such shares shall have been received by First Merchants. The registration statement with respect thereto shall have been declared effective by the Securities and Exchange Commission and no stop order shall have been issued or threatened.

9.03. TAX OPINION. The parties shall have obtained an opinion of counsel which shall be in form and content satisfactory to counsel for all parties hereto, to the effect that the Merger effected pursuant to this Agreement shall constitute a tax-free transaction (except to the extent cash is received) to each party hereto and to the shareholders of each party. Such opinion shall be based upon factual representations received by such counsel from the parties, which representations may take the form of written certifications.

9.04. AFFILIATE AGREEMENTS. First Merchants shall have obtained (a) from Randolph County, a list identifying each affiliate of Randolph County and (b) from each affiliate of Randolph County, the agreements contemplated by Section 7.06 hereof.

9.05. REGULATORY APPROVALS. The Board of Governors of the Federal Reserve System and the Indiana Department of Financial Institutions shall have authorized and approved the Merger and the transactions related thereto. In addition, all appropriate orders,

consents, approvals and clearances from all other regulatory agencies and governmental authorities whose orders, consents, approvals or clearances are required by law for consummation of the transactions contemplated by this Agreement shall have been obtained.

9.06. OFFICER'S CERTIFICATE. First Merchants and Randolph County shall have delivered to each other a certificate signed by their Chairman or President and their Secretary, dated the Effective Date, certifying that (a) all the representations and warranties of their respective corporations are true, accurate and correct on and as of the Effective Date; (b) all the covenants of their respective corporations have been complied with from the date of the Agreement through and as of the Effective Date; and (c) their respective corporations have satisfied and fully complied with all conditions necessary to make this Agreement effective as to them.

9.07. FAIRNESS OPINION. Randolph County shall have obtained an opinion from an investment banker of its choosing to the effect that the terms of the Merger, is fair to the shareholders of Randolph County from a financial viewpoint. Such opinion shall be (a) in form and substance reasonably satisfactory to Randolph County, (b) dated as of a date not later than the mailing date of the Proxy Statement relating to the Merger and (c) included in the Proxy Statement.

9.08. POOLING OF INTERESTS. First Merchants shall have obtained from its independent accountants, Geo. S. Olive & Co. LLC, a letter stating that, based upon their review of such documents and information which they deemed relevant, such firm is currently unaware of any reason why the Merger cannot be accounted for as a "pooling of interests."

#### SECTION 10

##### TERMINATION OF MERGER

10.01. MANNER OF TERMINATION. This Agreement and the transactions contemplated hereby may be terminated at any time prior to the Effective Date by written notice delivered by First Merchants to Randolph County or by Randolph County to First Merchants:

(a) By Randolph County or First Merchants, if there has been a material misrepresentation, a breach of warranty or a failure to comply with any covenant on the part of any party in the representation, warranties, and covenants set forth

herein; provided the party in default shall have no right to terminate for its own default;

(b) By Randolph County or First Merchants, if it shall determine in its sole discretion that the transactions contemplated by this Agreement have become inadvisable or impracticable by reason of commencement or threat of material litigation or proceedings against any of the parties;

(c) By Randolph County or First Merchants, if the financial condition, business, assets, or results of operations of the other party shall have been materially and adversely changed from that in existence at September 30, 1995;

(d) By Randolph County or First Merchants, if the transaction contemplated herein has not been consummated by September 30, 1996;

(e) By First Merchants if any of the items, events or information set forth in any update to the Disclosure Letter has had or may have a material adverse effect on the financial condition, results of operations, business, or prospects of Randolph County or Bank;

(f) By First Merchants or Randolph County if the Merger will not constitute a tax-free reorganization under the Code; or

(g) By First Merchants if the Merger cannot be accounted for as a "pooling of interests."

10.02. EFFECT OF TERMINATION. Upon termination by written notice, as provided in this Section, this Agreement shall be void and of no further force or effect and there shall be no obligation on the part of Randolph County or First Merchants or their respective officers, directors, employees, agents, or shareholders, except for payment of their respective expenses and First Merchants obligations under Section 8.05.

#### SECTION 11

##### EFFECTIVE DATE OF MERGER

Subject to the terms and upon satisfaction of all requirements of law and the conditions specified in this Agreement, the Merger shall become effective at the close of business on the day specified in the Articles of Merger of Randolph County with and into First Merchants as filed with the Secretary of State of

Indiana ("Effective Date"). The Effective Date shall occur no later than the last business day of the month in which that thirty (30) day period following the last approval of the Merger by a federal regulatory agency or governmental authority expires.

## SECTION 12

### CLOSING

12.01. CLOSING DATE AND PLACE. The closing of the Merger ("Closing") shall take place at the main office of First Merchants on the Effective Date.

12.02. ARTICLES OF MERGER. Subject to the provisions of this Agreement, on the Effective Date, the Articles of Merger shall be duly filed with the Secretary of State of the State of Indiana.

12.03. OPINIONS OF COUNSEL. At the Closing, Randolph County shall deliver an opinion of its counsel, Cook & Haviza, to First Merchants, and First Merchants shall deliver an opinion of its counsel, Bingham Summers Welsh & Spilman, to Randolph County, dated as of the date of the Closing and substantially in the form set forth in Exhibit A and Exhibit B, respectively, attached hereto.

## SECTION 13

### MISCELLANEOUS

13.01. EFFECTIVE AGREEMENT. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but none of the provisions thereof shall inure to the benefit of any other person, firm, or corporation whomsoever. Neither this Agreement nor any of the rights, interests, or obligations hereunder shall be assigned or transferred by either party hereto without the prior written consent of the other party.

13.02. WAIVER; AMENDMENT.

(a) First Merchants and Randolph County may, by an instrument in writing executed in the same manner as this Agreement: (i) extend the time for the performance of any of the covenants or agreements of the other party under this Agreement; (ii) waive any inaccuracies in the representations or warranties of the other party contained in this Agreement or in any document delivered pursuant hereto or thereto; (iii) waive the performance by the other party of any of the covenants or agreements to be performed by it or them under

this Agreement; or (iv) waive the satisfaction or fulfillment of any condition the nonsatisfaction or nonfulfillment of which is a condition to the right of the party so waiving to terminate this Agreement. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other or subsequent breach hereunder.

(b) Notwithstanding approval by the shareholders of Randolph County, this Agreement may be amended, modified, or supplemented by the written agreement of Randolph County and First Merchants without further approval of such shareholders, except that no such amendment, modification, or supplement shall result in a decrease in the consideration specified in Section 3 hereof or shall materially adversely affect the rights of shareholders of Randolph County without the further approval of such shareholders.

13.03. NOTICES. Any notice required or permitted by this Agreement shall be deemed to have been duly given if delivered in person, receipted for or sent by certified mail, return receipt requested, postage prepaid, addressed as follows:

If to First Merchants:  
  
200 E. Jackson Street  
Box 792  
Muncie, IN 47305  
Attn: Stefan S. Anderson,  
President

With a copy to:  
  
Bingham Summers Welsh & Spilman  
2700 Market Tower  
10 West Market Street  
Indianapolis, Indiana 46204-2982  
Attn: David R. Prechtel, Esq.

If to Randolph County:  
  
122 West Washington St.  
Winchester, IN 47394  
Attn: Max Gordon,  
Chairman

With a copy to:  
  
Cook & Haviza  
111 North Main Street  
Winchester, IN 47384  
Attn: John T. Cook, Esq.

or such substituted address as any of them have given to the other in writing.

13.04. HEADINGS. The headings in this Agreement have been inserted solely for the ease of reference and should not be considered in the interpretation or construction of this Agreement.

13.05. SEVERABILITY. In case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other

provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal, or unenforceable provision or provisions had never been contained herein.

13.06. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute one and the same instrument.

13.07. GOVERNING LAW. This Agreement is executed in and shall be construed in accordance with the laws of the State of Indiana.

13.08. ENTIRE AGREEMENT. This Agreement supersedes any other agreement, whether oral or written, between First Merchants and Randolph County relating to the matters contemplated hereby, and constitutes the entire agreement between the parties hereto.

13.09. EXPENSES. First Merchants and Randolph County shall each pay their own expenses incidental to the transactions contemplated hereby. It is understood that the cost of the fairness opinion referenced in Section 9.07 shall be borne by Randolph County whether or not the Merger is consummated.

IN WITNESS WHEREOF, First Merchants and Randolph County have made and entered into this Agreement as of the day and year first above written and have caused this Agreement to be executed and attested by their duly authorized officers.

FIRST MERCHANTS CORPORATION

ATTEST:

/S/ Rodney A. Medler  
-----  
Rodney A. Medler, Secretary

By /S/ Stefan S. Anderson  
-----  
Stefan S. Anderson, President

RANDOLPH COUNTY BANCORP

ATTEST:

/S/ William H. Ward  
-----  
William Ward, Secretary

By /S/ Max Gordon  
-----  
Max Gordon, Chairman



AGREEMENT OF REORGANIZATION AND MERGER

BETWEEN

FIRST MERCHANTS CORPORATION

AND

UNION NATIONAL BANCORP

THIS AGREEMENT OF REORGANIZATION AND MERGER ("Agreement"), is entered this 24th day of January, 1996, by and between FIRST MERCHANTS CORPORATION ("First Merchants") and UNION NATIONAL BANCORP ("Union National").

W I T N E S S E T H:

WHEREAS, First Merchants is a corporation duly organized and existing under the laws of the State of Indiana and a registered bank holding company under the Bank Holding Company Act of 1956, as amended, with its principal place of business in Muncie, Delaware County, Indiana.

WHEREAS, Union National is a corporation duly organized and existing under the laws of the State of Indiana and a registered bank holding company under the Bank Holding Company Act of 1956, as amended, with its principal place of business in Liberty, Union County, Indiana.

WHEREAS, The Union County National Bank of Liberty (the "Bank") is a national bank duly organized and existing under the laws of the United States and a wholly-owned subsidiary of Union National with its principal banking office in Liberty, Union County, Indiana.

WHEREAS, it is the desire of First Merchants and Union National to effect a transaction whereby the Bank will become a wholly-owned subsidiary of First Merchants through a statutory merger of Union National with and into First Merchants.

WHEREAS, a majority of the entire Board of Directors of First Merchants and a majority of the entire Board of Directors of Union National have approved this Agreement, designated it as a plan of reorganization within the provisions of Section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended (the "Code"), and authorized its execution.

NOW, THEREFORE, in consideration of the mutual promises, covenants, and agreements herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, First Merchants and Union National hereby make this Agreement and prescribe the terms and conditions of the merger of

Union National with and into First Merchants and the mode of carrying the transaction into effect as follows:

SECTION 1

THE MERGER

Subject to the terms and conditions of this Agreement, on the Effective Date, as defined in Section 11 hereof, Union National shall be merged into and under the Articles of Incorporation of First Merchants, which shall be the "Continuing Company" and which shall continue its corporate existence under the laws of the State of Indiana, pursuant to the provisions of and with the effect provided in the Indiana Business Corporation Law and particularly Indiana Code chapter 23-1-40 (the "Merger").

SECTION 2

EFFECT OF THE MERGER

Upon the Merger becoming effective:

2.01. GENERAL DESCRIPTION. The separate existence of Union National shall cease and the Continuing Company shall possess all of the assets of Union National including all of the issued and outstanding shares of capital stock of the Bank and all of its rights, privileges, immunities, powers, and franchises and shall be subject to and assume all of the duties and liabilities of Union National.

2.02. NAME, OFFICES, AND MANAGEMENT. The name of the Continuing Company shall continue to be "First Merchants Corporation." Its principal banking office shall be located at 200 E. Jackson Street, Muncie, Indiana. The Board of Directors of the Continuing Company, until such time as their successors have been elected and qualified, shall consist of the current Board of Directors of First Merchants. The officers of First Merchants immediately prior to the Effective Date shall continue as the officers of the Continuing Company.

2.03. CAPITAL STRUCTURE. The amount of capital stock of the Continuing Company shall not be less than the capital stock of First Merchants immediately prior to the Effective Date increased by the amount of capital stock issued in accordance with Section 3 hereof.

2.04. ARTICLES OF INCORPORATION AND BYLAWS. The Articles of Incorporation and Bylaws of the Continuing Company shall be those of First Merchants immediately prior to the Effective Date until the same shall be further amended as provided by law.

2.05. ASSETS AND LIABILITIES. The title to all assets, real estate and other property owned by First Merchants and Union National shall vest in the Continuing Company without reversion or impairment. All liabilities of Union National shall be assumed by the Continuing Company.

### SECTION 3

#### CONSIDERATION TO BE DISTRIBUTED TO SHAREHOLDERS OF UNION NATIONAL

3.01. CONSIDERATION. Upon and by reason of the Merger becoming effective, shareholders of Union National of record on the Effective Date who have not dissented to the Merger in accordance with Indiana Code Chapter 23-1-44 shall be entitled to receive four and 86/100 (4.86) shares of First Merchants common stock for each share of Union National common stock held.

3.02. NO FRACTIONAL FIRST MERCHANTS COMMON SHARES. Certificates for fractional shares of common stock of First Merchants shall not be issued in respect of fractional interests arising from the exchange ratio, aggregating all shares of First Merchants common stock to be received by each shareholder of Union National. Each Union National shareholder who would otherwise have been entitled to a fraction of a First Merchants share, upon surrender of all of his/her certificates representing Union National common shares, shall be paid in cash in an amount equal to the fraction of the average of the closing price of First Merchants common stock as quoted by NASDAQ for the five trading days preceding the Effective Date.

3.03. RECAPITALIZATION. If, between the date of this Agreement and the Effective Date, First Merchants issues a stock dividend with respect to its shares of common stock, combines, subdivides, or splits up its outstanding shares or takes any similar recapitalization action, then the number of shares of First Merchants common stock into which each outstanding Union National share will be converted under Section 3.01 hereof shall be adjusted so that each Union National shareholder shall receive such number of First Merchants shares as represents the same percentage of outstanding shares of First Merchants common stock at the Effective Date as would have been represented by the number of shares such shareholder would have received if the recapitalization had not occurred.

3.04. DISTRIBUTION OF FIRST MERCHANTS COMMON STOCK AND CASH.

(a) Following the Effective Date, distribution of stock certificates representing First Merchants common stock and cash payments for fractional shares shall be made by First Merchants to each former shareholder of Union National within ten (10) days of such shareholder's delivery of his/her certificates representing common stock of Union National to the conversion agent, First Merchants Bank (the "Conversion Agent"). Interest shall not accrue or be payable with respect to any cash payments.

(b) Following the Effective Date, stock certificates representing Union National common stock shall be deemed to evidence only the right to receive ownership of First Merchants common stock (for all corporate purposes other than the payment of dividends) and cash for fractional shares, as applicable. No dividends or other distributions otherwise payable subsequent to the Effective Date on stock of First Merchants shall be paid to any shareholder entitled to receive the same until such shareholder has surrendered his/her certificates for Union National common stock to the Conversion Agent in exchange for certificates representing First Merchants common stock and cash. Upon surrender, there shall be paid to the recordholder of the new certificate(s) evidencing shares of First Merchants common stock, the amount of all dividends and other distributions, without interest thereon, withheld with respect to such common stock.

(c) First Merchants shall be entitled to rely upon the stock transfer books of Union National to establish the persons entitled to receive cash and shares of common stock of First Merchants, which books, in the absence of actual knowledge by First Merchants of any adverse claim thereto, shall be conclusive with respect to the ownership of such stock.

(d) With respect to any certificate for shares of Union National common stock which has been lost, stolen, or destroyed, First Merchants shall be authorized to issue common stock to the registered owner of such certificate upon receipt of an affidavit of lost stock certificate, in form and substance satisfactory to First Merchants, and upon compliance by the Union National shareholder with all procedures historically required by Union National in connection with lost, stolen, or destroyed certificates.

(e) Stock certificates that name Bank as issuer but represent Union National common stock shall be deemed stock certificates representing Union National common stock in connection with the Merger and for the purposes of rights and obligations under this Agreement.

#### SECTION 4

##### DISSENTING SHAREHOLDERS

Shareholders of Union National shall have the rights accorded to dissenting shareholders under Indiana Code Chapter 23-1-44.

#### SECTION 5

##### REPRESENTATIONS AND WARRANTIES OF UNION NATIONAL

Union National represents and warrants to First Merchants with respect to itself and the Bank as follows: (For the purposes of this Section, a "Disclosure Letter" is defined as a letter referencing Section 5 of this Agreement which shall be prepared and executed by an authorized executive officer of Union National and delivered to and initialed by an authorized executive officer of First Merchants contemporaneous with the execution of this Agreement.)

5.01. ORGANIZATION AND AUTHORITY. Union National is a corporation duly organized and validly existing under the laws of the State of Indiana, and Bank is a national bank duly organized and validly existing under the laws of the United States. Union National and Bank have the power and authority (corporate and other) to conduct their respective businesses in the manner and by the means utilized as of the date hereof. Union National's only subsidiary is Bank, and Bank has no subsidiaries. Bank is subject to primary federal regulatory supervision and regulation by the Office of the Comptroller of the Currency.

##### 5.02. AUTHORIZATION.

(a) Union National has the corporate power and authority to enter into this Agreement and to carry out its obligations hereunder. This Agreement, when executed and delivered, will have been duly authorized and will constitute a valid and binding obligation of Union National, enforceable in accordance with its terms except to the extent limited by insolvency, reorganization, liquidation,

readjustment of debt or other laws of general application relating to or affecting the enforcement of creditors' rights.

(b) Neither the execution of this Agreement, nor the consummation of the transactions contemplated hereby, does or will (i) conflict with, result in a breach of, or constitute a default under Union National's Articles of Incorporation or By-Laws; (ii) to the best of its knowledge, conflict with, result in a breach of, or constitute a default under any federal, foreign, state or local law, statute, ordinance, rule, regulation or court or administrative order or decree, or any note, bond, indenture, mortgage, security agreement, contract, arrangement or commitment, to which Union National or Bank is subject or bound, which as a result of any of the foregoing in this subpart (ii) would materially adversely affect the business or financial condition of Union National or the Bank; (iii) result in the creation of or give any person, corporation or entity, the right to create any material lien, charge, encumbrance, security interest, or any other rights of others or other adverse interest upon any right, property or asset of Union National or Bank; (iv) terminate or give any person, corporation or entity, the right to terminate, amend, abandon, or refuse to perform any note, bond, indenture, mortgage, security agreement, contract, arrangement or commitment to which Union National or Bank is subject or bound and which in the aggregate are in excess of \$50,000; or (v) accelerate or modify, or give any party thereto the right to accelerate or modify, the time within which, or the terms according to which, Union National or Bank is to perform any duties or obligations or receive any rights or benefits under any note, bond, indenture, mortgage, security agreement, contract, arrangement or commitment in the aggregate in excess of \$50,000.

(c) Other than in connection or in compliance with the provisions of the Bank Holding Company Act of 1956, federal and state securities laws and applicable Indiana banking and corporate statutes, all as amended, and the rules and regulations promulgated thereunder, no notice to, filing with, authorization of, exemption by, or consent or approval of, any public body or authority is necessary for the consummation by Union National of the transactions contemplated by this Agreement.

5.03. CAPITALIZATION.

(a) As of December 31, 1995, Union National had 200,000 shares of common stock authorized, no par value per share, 193,968 shares of which were issued and outstanding. Such issued and outstanding shares of Union National common stock have been duly and validly authorized by all necessary corporate action of Union National, are validly issued, fully paid and nonassessable and have not been issued in violation of any preemptive rights of any shareholders. Union National has no intention or obligation to authorize or issue additional shares of its common stock. Union National has not authorized the issuance of any other class of stock. On a consolidated basis as of December 31, 1995, Union National had total capital of \$15,741,000, which consisted of common stock of \$970,000, capital surplus of \$1,957,000, and retained earnings of \$12,814,000.

(b) As of December 31, 1995, Bank had 100,000 shares of common stock authorized, \$10 par value per share, all of which shares were issued and outstanding to Union National. Such issued and outstanding shares of Bank common stock have been duly and validly authorized by all necessary corporate action of Bank, are validly issued, fully paid and nonassessable, and have not been issued in violation of any preemptive rights of any Bank shareholders. All the issued and outstanding shares of Bank common stock are owned by Union National free and clear of all liens, pledges, charges, claims, encumbrances, restrictions, security interests, options and preemptive rights and of all other rights of any other person, corporation or entity with respect thereto. As of December 31, 1995, Bank had total capital of \$15,446,000, which consisted of common stock of \$1,000,000, capital surplus of \$2,000,000, and undivided profits of \$12,446,000.

(c) There are no options, commitments, calls, agreements, understandings, arrangements or subscription rights regarding the issuance, purchase or acquisition of capital stock, or any securities convertible into or representing the right to purchase or otherwise receive the capital stock or any debt securities, of Union National or Bank by which Union National or Bank is or may become bound. Neither Union National or Bank has any outstanding contractual or other obligation to repurchase, redeem or otherwise acquire any of its respective outstanding shares of capital stock.

(d) Except as set forth in the Disclosure Letter, no person or entity beneficially owns 5% or more of Union National's outstanding shares of common stock.

5.04. ORGANIZATIONAL DOCUMENTS. The respective Articles of Incorporation or Association and By-Laws of Union National and Bank have been delivered to First Merchants and represent true, accurate and complete copies of such corporate documents of Union National and Bank in effect as of the date of this Agreement.

5.05. COMPLIANCE WITH LAW. Neither Union National nor Bank has engaged in any activity nor taken or omitted to take any action which has resulted or, to the knowledge of Union National could result, in the violation of any local, state, federal or foreign law, statute, rule, regulation or ordinance or of any order, injunction, judgment or decree of any court or government agency or body, the violation of which could materially adversely affect the business, prospects, condition (financial or otherwise) or results of operations of Union National or Bank. Union National and Bank possess all licenses, franchises, permits and other authorizations necessary for the continued conduct of their respective businesses without material interference or interruption and such licenses, franchises, permits and authorizations shall be transferred to First Merchants on the Effective Date without any restrictions or limitations thereon or the need to obtain any consents of third parties. All agreements and understandings with, and all orders and directives of, all regulatory agencies or government authorities with respect to the business or operations of Union National or Bank, including all correspondence, communications and commitments related thereto, are set forth in the Disclosure Letter. Bank has received no inquiries from any regulatory agency or government authority relating to its material noncompliance with the Bank Secrecy Act, the Truth-in-Lending Act or the Community Reinvestment Act or any laws with respect to the protection of the environment or the rules and regulations promulgated thereunder.

5.06. ACCURACY OF STATEMENTS. Neither this Agreement nor any report, statement, list, certificate or other information furnished or to be furnished by Union National or Bank to First Merchants in connection with this Agreement or any of the transactions contemplated hereby (including, without limitation, any information which has been or shall be supplied by Union National or Bank with respect to their businesses, operations and financial condition for inclusion in the proxy statement and registration statement relating to the Merger) contains or shall contain (in the case of information relating to the proxy statement at the time it is mailed and for the registration statement at the time it becomes effective) any untrue statement of a material



act or omits or shall omit to state a material fact necessary to make the statements contained herein or therein not misleading.

5.07. LITIGATION AND PENDING PROCEEDINGS. Except as set forth in the Disclosure Letter, there are no material claims of any kind, nor any material action, suits, proceedings, arbitrations or investigations pending or, to the knowledge of Union National or Bank, threatened in any court or before any government agency or body, arbitration panel or otherwise (nor does Union National or Bank have any knowledge of a basis for any material claim, action, suit, proceeding, arbitration or investigation) against, by or materially adversely affecting Union National or Bank or their respective businesses, prospects, conditions (financial or otherwise), results of operations or assets, or which would prevent the performance of this Agreement or declare the same unlawful or cause the rescission hereof. There are no material uncured violations, or violations with respect to which material refunds or restitutions may be required, cited in any compliance report to Union National or Bank as a result of an examination by any regulatory agency or body.

5.08. FINANCIAL STATEMENTS.

(a) Union National's consolidated balance sheets as of the end of the three fiscal years ended December 31, 1992, 1993 and 1994 and the nine months ended September 30, 1995 and the related consolidated statements of income, shareholders' equity and cash flows for the years or period then ended (hereinafter collectively referred to as the "Financial Information") present fairly, in all material respects, the consolidated financial condition or position of Union National as of the respective dates thereof and the consolidated results of operations of Union National for the respective periods covered thereby and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. All required regulatory reports have been filed by Union National and Bank with their respective primary federal regulators during 1995, 1994, 1993 and 1992, are true, accurate and complete, in all material respects, and were prepared in conformity with generally accepted regulatory accounting principles applied on a consistent basis.

(b) Except to the extent that failure to comply with this subsection does not have a material adverse effect on Union National or the Bank, all loans reflected in the Financial Information and which have been made, extended or acquired since September 30, 1995, (i) have been made for good, valuable and adequate consideration in the ordinary

course of business; (ii) constitute the legal, valid and binding obligation of the obligor and any guarantor named therein; (iii) are evidenced by notes, instruments or other evidences of indebtedness which are true, genuine and what they purport to be; and (iv) to the extent that Bank has a security interest in collateral or a mortgage securing such loans, are secured by perfected security interests or mortgages naming Bank as the secured party or mortgagee.

5.09. ABSENCE OF CERTAIN CHANGES. Except for events and conditions relating to the business environment in general or as set forth in the Disclosure Letter, since September 30, 1995, there has not been any change or event of any character, actual or to Union National's or Bank's knowledge threatened, which in the aggregate materially adversely affects Union National's or Bank's business, prospects, conditions (financial or otherwise), assets or results of operations.

5.10. ABSENCE OF UNDISCLOSED LIABILITIES. Neither Union National nor Bank is a party to any agreement, contract, obligation, commitment, arrangement, liability, lease or license which individually exceeds \$10,000 per year or which may not be terminated within one year from the date of this Agreement, except as set forth in the Disclosure Letter or reflected in the Financial Information and except for unfunded loan commitments made in the ordinary course of Bank's business consistent with past practices, nor to the knowledge of Union National does there exist any circumstances resulting from transactions effected or to be effected or events which have occurred or may occur or from any action taken or omitted to be taken which could reasonably be expected to result in any such agreement, contract, obligation, commitment, arrangement, liability, lease or license.

5.11. TITLE TO ASSETS. Except as set forth in the Disclosure Letter or except to the extent that failure to comply with this Section 5.11 does not have a material adverse effect on Union National or the Bank, Union National and Bank have good and marketable title in fee simple absolute to all real property (including, without limitation, all real property used as bank holding company or bank premises and all other real estate owned) and personal property reflected in the Financial Information as of September 30, 1995, good and marketable title to all other properties and assets which Union National or Bank purport to own, good and marketable title to or right to use by terms of lease or contract all other property used in Union National's or Bank's business and good and marketable title to all property and assets acquired since September 30, 1995, free and clear of all mortgages, liens, pledges, restrictions, security interests, charges, claims or encumbrances of any nature. All real property owned by Union National or Bank is in compliance with all

applicable laws, statutes, rules, regulations and ordinances relating to the environment, pollution and the treatment, storage, disposal, discharge or release of chemicals and hazardous or toxic substances or wastes and, in all material respects, with all applicable zoning law.

#### 5.12. LOANS AND INVESTMENTS.

(a) Except as set forth in the Disclosure Letter, there is no loan of Bank in excess of \$10,000 that has been classified by bank regulatory examiners as "Other Loans Specially Mentioned," "Substandard," "Doubtful" or "Loss," nor is there any loan of Bank in excess of \$10,000 that has been identified by accountants or auditors (internal or external) as having a significant risk of uncollectibility.

Bank's loan watch list and all loans in excess of \$10,000 that Bank's management has determined to be ninety (90) days or more past due with respect to principal or interest or has placed on nonaccrual status are set forth in the Disclosure Letter.

(b) Each of the reserves and allowances for possible loan losses and the carrying value for real estate owned which are shown on the Financial Information is, in the opinion of Union National and Bank, adequate in all material respects under the requirements of generally accepted accounting principles applied on a consistent basis to provide for possible losses on loans outstanding and real estate owned as of the date of such Financial Information.

(c) Except as set forth in the Disclosure Letter, none of the investments reflected in the Financial Information and none of the investments made by Union National or Bank since September 30, 1995 is subject to any restrictions, whether contractual or statutory, which materially impairs the ability of Union National or Bank to dispose freely of such investment at any time. Except as set forth in the Disclosure Letter, neither Union National nor Bank are a party to any repurchase agreements with respect to securities.

#### 5.13. EMPLOYEE BENEFIT PLANS.

(a) The Disclosure Letter contains a list identifying each "employee benefit plan," as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which (i) is subject to any provision of ERISA, and (ii) is maintained, administered or contributed to by Union National or Bank and covers any employee or former employee of Union National or Bank under which Union

National or Bank has any liability. Copies of such plans (and, if applicable, related trust agreements or insurance contracts) and all amendments thereto and written interpretations thereof have been furnished to First Merchants together with the three most recent annual reports prepared in connection with any such plan and the current summary plan descriptions. Such plans are hereinafter referred to individually as an "Employee Plan" and collectively as the "Employee Plans." The Employee Plans which individually or collectively would constitute an "employee pension benefit plan" as defined in Section 3(2) of ERISA are identified in the list referred to above.

(b) The Employee Plans comply with and have been operated in accordance with all applicable laws, regulations, rulings and other requirements the breach or violation of which could materially affect Union National, Bank, or an Employee Plan. Each Employee Plan has been administered in substantial conformance with such requirements and all reports and information required with respect to each Employee Plan have been timely given.

(c) No "prohibited transaction," as defined in Section 406 of ERISA or Section 4975 of the Code, for which no statutory or administrative exemption exists, and no "reportable event," as defined in Section 4043(b) of ERISA, has occurred with respect to any Employee Plan. Neither Union National or Bank has any liability to the Pension Benefit Guaranty Corporation ("PBGC"), to the Internal Revenue Service ("IRS"), to the Department of Labor ("DOL") or to an employee or Employee Plan beneficiary under Section 502 of ERISA.

(d) No "fiduciary," as defined in Section (3)(21) of ERISA, of an Employee Plan has failed to comply with the requirements of Section 404 of ERISA.

(e) Each of the Employee Plans which is intended to be qualified under Code Section 401(a) has been amended to comply in all material respects with the applicable requirements of the Code, including the Tax Reform Act of 1986, the Revenue Act of 1987, the Technical and Miscellaneous Revenue Act of 1988, the Omnibus Budget Reconciliation Act of 1989, the Revenue Reconciliation Act of 1990, the Tax Extension Act of 1991, the Unemployment Compensation Amendments of 1992, the Omnibus Budget Reconciliation Act of 1993, and the Retirement Protection Act of 1994 and any rules, regulations or other requirements promulgated thereunder (the "Acts"). In addition, each such Employee Plan has been and is being operated in substantial

conformance with the applicable provisions of ERISA and the Code, as amended by the Acts. Except as set forth in the Disclosure Letter, Union National and/or Bank, as applicable, sought and received favorable determination letters from the IRS within the applicable remedial amendment periods under Code Section 401(b), and has furnished to First Merchants copies of the most recent IRS determination letters with respect to any such Employee Plan.

(f) Except as set forth in the Disclosure Letter, no Employee Plan owns any security of Union National or Bank.

(g) No Employee Plan has incurred an "accumulated funding deficiency," as determined under Code Section 412 and ERISA Section 302.

(h) Except as set forth in the Disclosure Letter, no Employee Plan has been terminated or incurred a partial termination (either voluntarily or involuntarily).

(i) No claims against an Employee Plan, Union National or Bank, with respect to an Employee Plan, (other than normal benefit claims) have been asserted or threatened.

(j) There is no contract, agreement, plan or arrangement covering any employee or former employee of Union National or Bank that, individually or collectively, could give rise to the payment of any amount that would not be deductible by reason of Section 280G or Section 162(a)(1) of the Code.

(k) No event has occurred that would cause the imposition of the tax described in Code Section 4980B. All requirements of ERISA Section 601 have been met.

(l) The Disclosure Letter contains a list of each employment, severance or other similar contract, arrangement or policy and each plan or arrangement (written or oral) providing for insurance coverage (including any self-insured arrangements), workers' compensation, disability benefits, supplemental unemployment benefits, vacation benefits, retirement benefits or deferred compensation, profit sharing, bonuses, stock options, stock appreciation or other forms of incentive compensation or post-retirement insurance, compensation or benefits which (i) is not an Employee Plan, (ii) was entered into, maintained or contributed to, as the case may be, by Union National or Bank and (iii) covers any employee or former employee of Union National or Bank. Such contracts, plans and

arrangements as are described above, copies or descriptions of all of which have been furnished previously to First Merchants, are hereinafter referred to collectively as the "Benefit Arrangements." Each of the Benefit Arrangements has been maintained in substantial compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations which are applicable to such Benefit Arrangements.

(m) Neither Union National nor Bank has any present or future liability in respect of post-retirement health and medical benefits for former employees of Union National or Bank.

(n) Except as set forth in the Disclosure Letter, there has been no amendment to, written interpretation or announcement (whether or not written) by Union National or Bank relating to, or change in employee participation or coverage under, any Employee Plan or Benefit Arrangement which would increase materially the expense of maintaining such Employee Plans or Benefit Arrangements above the level of the expense incurred in respect thereof for the fiscal year ended December 31, 1994.

(o) For purposes of this Section 5.13, references to Union National or Bank are deemed to include (i) all predecessors of Union National or Bank, (ii) any subsidiary of Union National or Bank, (iii) all members of any controlled group (as determined under Code Section 414(b) or (c)) that includes Union National or Bank, and (iv) all members of any affiliated service group (as determined under Code Section 414(m) or (n)) that includes Union National or Bank.

5.14 OBLIGATIONS TO EMPLOYEES. Except as set forth in the Disclosure Letter, all accrued obligations and liabilities of Union National and Bank, whether arising by operation of law, by contract or by past custom, for payments to trust or other funds, to any government agency or body or to any individual director, officer, employee or agent (or his heirs, legatees or legal representative) with respect to unemployment compensation or social security benefits and all pension, retirement, savings, stock purchase, stock bonus, stock ownership, stock option, stock appreciation rights or profit sharing plan, any employment, deferred compensation, consultant, bonus or collective bargaining agreement or group insurance contract or other incentive, welfare or employee benefit plan or agreement maintained by Union National or Bank for their current or former directors, officers, employees and agents have been and are being paid to the extent required by law or by the plan or contract. All obligations and

liabilities of Union National and Bank, whether arising by operation of law, by contract, or by past custom, for all forms of compensation which are or may be payable to their current or former directors, officers, employees or agents have been and are being paid. All accruals and reserves referred to in this Section 5.14 are correctly and accurately reflected and accounted for in the books, statements and records of Union National and Bank.

5.15. TAXES, RETURNS AND REPORTS. Union National and Bank have (a) duly filed all federal, state, local and foreign tax returns of every type and kind required to be filed as of the date hereof, and each return is true, complete and accurate in all material respects; (b) paid in all material respects all taxes, assessments and other governmental charges due or claimed to be due upon them or any of their income, properties or assets; and (c) not requested an extension of time for any such payments (which extension is still in force). Except for taxes not yet due and payable, the reserve for taxes reflected in the Financial Information is adequate, in all material respects, to cover all of Union National's and Bank's tax liabilities (including, without limitation, income taxes and franchise fees) that may become payable in future years with respect to any transactions consummated prior to December 31, 1994. Neither Union National nor Bank has or will have, any material liability for taxes of any nature for or with respect to the operation of their business, including the assets of any subsidiary, from December 31, 1994 up to and including the Effective Date, except to the extent reflected on their Financial Information or on financial statements of Union National or Bank subsequent to such date and as set forth in the Disclosure Letter. Neither Union National nor Bank is currently under audit by any state or federal taxing authority. Except as set forth in the Disclosure Letter, neither the federal, state, or local tax returns of Union National or Bank have been audited by any taxing authority during the past five (5) years.

5.16. DEPOSIT INSURANCE. The deposits of Bank are insured by the Federal Deposit Insurance Corporation ("FDIC") in accordance with the Federal Deposit Insurance Act, and Bank has paid all premiums and assessments with respect to such deposit insurance.

5.17. BROKER'S OR FINDER'S FEES. Except as set forth in the Disclosure Letter, no agent, broker or other person acting on behalf of Union National or Bank or under any authority of Union National or Bank is or shall be entitled to any commission, broker's or finder's fee or any other form of compensation or payment from any of the parties hereto, other than attorneys' or

accountants' fees, in connection with any of the transactions contemplated by this Agreement.

5.18. BRING DOWN OF REPRESENTATIONS AND WARRANTIES. All representations and warranties of Union National and Bank contained in this Section 5 shall be true, accurate and correct on and as of the Effective Date except as affected by the transactions contemplated by and specified within the terms of this Agreement.

5.19. NONSURVIVAL OF REPRESENTATIONS AND WARRANTIES. The representations and warranties contained in this Section 5 shall expire on the Effective Date, and thereafter Union National and Bank shall have no further liability with respect thereto unless a court of competent jurisdiction should determine that any misrepresentation or breach of a warranty was willfully or intentionally caused either by action or inaction.

## SECTION 6

### REPRESENTATIONS AND WARRANTIES OF FIRST MERCHANTS

First Merchants hereby represents and warrants to Union National as follows:

6.01. ORGANIZATION AND QUALIFICATION. First Merchants is a corporation organized and existing under the laws of the State of Indiana and has the corporate power and authority to conduct its business in the manner and by the means utilized as of the date hereof.

#### 6.02. AUTHORIZATION.

(a) First Merchants has the corporate power and authority to enter into this Agreement and to carry out its obligations hereunder subject to certain required regulatory approvals. The Agreement, when executed and delivered, will have been duly authorized and will constitute a valid and binding obligation of First Merchants, enforceable in accordance with its terms, except to the extent limited by insolvency, reorganization, liquidation, readjustment of debt, or other laws of general application relating to or affecting the enforcement of creditor's rights.

(b) Neither the execution of this Agreement, nor the consummation of the transactions contemplated hereby, does or will (i) conflict with, result in a breach of, or constitute a default under First Merchant's Articles of



Incorporation or By-laws; (ii) to the best of its knowledge, conflict with, result in a breach of, or constitute a default under any federal, foreign, state, or local law, statute, ordinance, rule, regulation, or court or administrative order or decree, or any note, bond, indenture, mortgage, security agreement, contract, arrangement, or commitment, to which First Merchants is subject or bound, which as a result of any of the foregoing in this subpart (ii) would materially adversely affect the business or financial condition of First Merchants; (iii) result in the creation of or give any person, corporation or entity, the right to create any material lien, charge, claim, encumbrance, security interest, or any other rights of others or other adverse interest upon any right, property or asset of First Merchants; (iv) terminate or give any person, corporation or entity, the right to terminate, amend, abandon, or refuse to perform any note, bond, indenture, mortgage, security agreement, contract, arrangement, or commitment to which First Merchants is a party or by which First Merchant is subject or bound and which in the aggregate are in excess of \$50,000; or (v) accelerate or modify, or give any party thereto the right to accelerate or modify, the time within which, or the terms according to which, First Merchants is to perform any duties or obligations or receive any rights or benefits under any note, bond, indenture, mortgage, security agreement, contract, arrangement, or commitment in the aggregate in excess of \$50,000.

(c) Other than in connection or in compliance with the provisions of the Bank Holding Company Act of 1956, federal and state securities laws, and applicable Indiana banking and corporate statutes, all as amended, and the rules and regulations promulgated thereunder, no notice to, filing with, authorization of, exemption by, or consent or approval of, any public body or authority is necessary for the consummation by First Merchants of the transactions contemplated by this Agreement.

#### 6.03. CAPITALIZATION.

(a) At December 31, 1995 First Merchants had 20,000,000 authorized, no par value, of which 5,053,901 shares were issued and outstanding. The 5,053,901 shares of common stock are validly issued, fully paid and nonassessable.

(b) First Merchants has 500,000 shares of Preferred Stock authorized, no par value, no shares of which have been issued and no commitments exist to issue any of such shares.

(c) Other than in connection with the proposed merger of Randolph County Bancorp, Inc. with and into First Merchants and pursuant to First Merchants Dividend Reinvestment and Stock Purchase Plan, Stock Option Plans and Employee Stock Purchase Plans, there are no options, commitments, calls or agreements outstanding regarding the issuance of capital stock or any securities representing the right to purchase or otherwise receive such stock, or any debt securities of First Merchants. First Merchants does not have any outstanding contractual obligation to repurchase, redeem, or otherwise acquire any of its outstanding shares of capital stock.

(d) The shares of First Merchants' common stock to be issued pursuant to the Merger will be fully paid, validly issued and nonassessable.

6.04. ORGANIZATIONAL DOCUMENTS. The Articles of Incorporation and By-laws of First Merchants in force as of the date hereof, have been delivered to Union National. The documents delivered by it represent complete and accurate copies of the corporate documents of First Merchants in effect as of the date of this Agreement.

6.05. ACCURACY OF STATEMENTS. Neither this Agreement nor any report, statement, list, certificate or other information furnished or to be furnished by First Merchants to Union National in connection with this Agreement or any of the transactions contemplated hereby (including, without limitation, any information which has been or shall be supplied by First Merchants with respect to its business, operations and financial condition for inclusion in the proxy statement and registration statement relating to the Merger) contains or shall contain (in the case of information relating to the proxy statement at the time it is mailed and to the registration statement at the time it become effective) any untrue statement of a material fact or omits or shall omit to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances in which they are made, not misleading.

6.06. COMPLIANCE WITH LAW. First Merchants has not engaged in any activity nor taken or omitted to take any action which has resulted or, to the knowledge of First Merchants, could result in the violation of any local, state, federal or foreign law, statute, rule, regulation or ordinance or of any order, injunction, judgment or decree of any court or government agency or body, the violation of which could materially adversely affect the business, prospects, condition (financial or otherwise) or results of operations of First Merchants. First Merchants possesses all licenses, franchises, permits and other

authorizations necessary for the continued conduct of its business without material interference or interruption. There are no agreements or understandings with, nor any orders of directives of, any regulatory agencies or government authorities, which would have a material adverse effect on the consolidated financial position of First Merchants. First Merchants has received no written inquiries from any regulatory agency or government authority relating to its material noncompliance with the Bank Secrecy Act, the Truth-in-Lending Act or the Community Reinvestment Act.

6.07. FINANCIAL STATEMENTS. First Merchants consolidated balance sheets as of the end of the three (3) fiscal years ended December 31, 1992, 1993 and 1994 and the nine months ended September 30, 1995 and the related consolidated statements of income, shareholders' equity and cash flows for the years or period then ended present fairly, in all material respects, the consolidated financial condition or position of First Merchants as of the respective dates thereof and the consolidated results of operations of First Merchants for the respective periods covered thereby and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. All required regulatory reports have been filed by First Merchants with its primary federal regulator during 1995, 1994, 1993 and 1992, are true, accurate and complete, in all material respects, and have been prepared in conformity with generally accepted regulatory accounting principles applied on a consistent basis.

6.08. ABSENCE OF CERTAIN CHANGES. Except for events and conditions relating to the business environment in general, since September 30, 1995, there has not been any change or event of any character, actual or to First Merchants knowledge threatened, which in the aggregate materially adversely affects First Merchants consolidated business, prospects, conditions (financial or otherwise), assets or results of operations.

6.09. FIRST MERCHANTS SECURITIES AND EXCHANGE COMMISSION FILINGS. First Merchants has filed all reports and other documents required to be filed by it under the Securities Exchange Act of 1934 and the Securities Act of 1933, including First Merchants' Annual Report on Form 10-K for the year ended December 31, 1994, and Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, copies of which have previously been delivered to Union National (the "Securities Law Filings"). The Securities Law Filings do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein not misleading.

6.10. BRING DOWN OF REPRESENTATIONS AND WARRANTIES. All representations and warranties of First Merchants contained in this Section 6 shall be true, accurate and correct on and as of the Effective Date except as affected by the transactions contemplated by and specified within the terms of this Agreement.

6.11. NONSURVIVAL OF REPRESENTATIONS AND WARRANTIES. The representations and warranties contained in this Section 6 shall expire on the Effective Date, and thereafter First Merchants shall have no further liability with respect thereto unless a court of competent jurisdiction should determine that any misrepresentation or breach of a warranty was willfully or intentionally caused either by action or inaction.

## SECTION 7

### COVENANTS OF UNION NATIONAL

Union National covenants and agrees with First Merchants, and covenants and agrees to cause Bank to act, as follows:

7.01. SHAREHOLDER APPROVAL. Union National shall submit this Agreement to its shareholders for approval at a meeting to be called and held in accordance with applicable law and the Articles of Incorporation and By-Laws of Union National.

7.02. OTHER APPROVALS. Union National and Bank shall proceed expeditiously, cooperate fully and use reasonable efforts to procure upon reasonable terms and conditions all consents, authorizations, approvals, registrations and certificates, to complete all filings and applications and to satisfy all other requirements prescribed by law which are necessary for consummation of the Merger on the terms and conditions provided in this Agreement at the earliest possible reasonable date.

#### 7.03. CONDUCT OF BUSINESS.

(a) On and after the date of this Agreement and until the Effective Date or until this Agreement shall be terminated as herein provided, neither Union National nor Bank shall, without the prior written consent of First Merchants, (i) make any material changes in their capital structure; (ii) authorize a class of stock or issue, or authorize the issuance of, stock other than or in addition to the outstanding stock as set forth in Section 5.03 hereof; (iii) declare, distribute or pay any dividends on their shares of common stock, or authorize a stock split, or make any other distribution to their shareholders, except for (a) the payment by Union National prior to the Effective

Date of quarterly cash dividends on its common stock in March, June, September and December, 1996, which dividends shall not exceed thirty-five cents (\$.35), thirty-five cents (\$.35), forty cents (\$.40), and forty cents (\$.40) per share, respectively, provided that Union National shall not pay any such dividend during the fiscal quarter in which the Merger shall become effective and in which Union National shareholders will become entitled to receive dividends on the shares of First Merchants into which the shares of Union National have been converted or in any subsequent fiscal quarter (First Merchants shall advise Union National in writing at least 15 days prior to the Effective Date if it anticipates a change from its historical practice in establishing the record date for determining those shareholders entitled to receive a dividend for the fiscal quarter in which the Merger is to be consummated. Such written notice shall describe the anticipated change in the record date.), and (b) the payment by the Bank to Union National of dividends to pay Union National's expenses of operations and its business and payment of fees and expenses incurred in connection with the transactions contemplated by this Agreement; (iv) merge, combine or consolidate with or, other than in the ordinary course of business, sell their assets or any of their securities to any other person, corporation or entity, effect a share exchange or enter into any other transaction not in the ordinary course of business; (v) incur any liability or obligation, make any commitment, payment or disbursement, enter into any contract, agreement, understanding or arrangement or engage in any transaction, or acquire or dispose of any property or asset having a fair market value in excess of \$10,000.00 (except for personal or real property acquired or disposed of in connection with foreclosures on mortgages or enforcement of security interests and loans made or sold by Bank in the ordinary course of business); (vi) subject any of their properties or assets to a mortgage, lien, claim, charge, option, restriction, security interest or encumbrance; (vii) promote or increase or decrease the rate of compensation (except for promotions and non-material increases in the ordinary course of business and in accordance with past practices) or enter into any agreement to promote or increase or decrease the rate of compensation of any director, officer or employee of Union National or Bank; (viii) execute, create, institute, modify or amend (except to allow a contribution to the Bank's defined contribution plan in connection with the period commencing January 1, 1996 and ending on the Effective Date in an amount based upon the participants' compensation during such period and the Bank's historical contribution percentage of participants' compensation as defined in the plan.), any

pension, retirement, savings, stock purchase, stock bonus, stock ownership, stock option, stock appreciation or depreciation right or profit sharing plan, any employment, deferred compensation, consultant, bonus or collective bargaining agreement, group insurance contract or other incentive, welfare or employee benefit plan or agreement for current or former directors, officers of employees of Union National or Bank, change the level of benefits or payments under any of the foregoing or increase or decrease any severance or termination of pay benefits or any other fringe or employee benefits other than as required by law or regulatory authorities; (ix) amend their Articles of Incorporation or By-Laws from those in effect on the date of this Agreement; (x) modify, amend or institute new employment policies or practices, or enter into, renew or extend any employment or severance agreements with respect to any present or former Union National or Bank directors, officers or employees; (xi) give, dispose, sell, convey, assign, hypothecate, pledge, encumber or otherwise transfer or grant a security interest in any common stock of Bank; and (xii) fail to make additions to Bank's reserve for loan, losses, or any other reserve account, in the ordinary course of business and in accordance with sound banking practices.

(b) Union National and Bank shall maintain, or cause to be maintained, in full force and effect insurance on its properties and operations and fidelity coverage on its directors, officers and employees in such amounts and with regard to such liabilities and hazards as have previously been maintained by Union National and Bank.

(c) Union National and Bank shall continue to give to First Merchants and its employees, accountants, attorneys and other authorized representatives reasonable access during regular business hours and other reasonable times to all their premises, properties, statements, books and records.

7.04. PRESERVATION OF BUSINESS. On and after the date of this Agreement and until the Effective Date or until this Agreement is terminated as herein provided. Union National and Bank each shall (a) carry on their business diligently, substantially in the same manner as heretofore conducted, and in the ordinary course of business; (b) use their reasonable efforts to preserve their business organizations intact, to keep their present officers and employees and to preserve their present relationship with customers and others having business dealings with them; and (c) not do or fail to do anything which will cause a material breach of, or material default in, any contract, agreement, commitment, obligation, understanding, arrangement,

lease or license to which they are a party or by which they are or may be subject or bound.

7.05. OTHER NEGOTIATIONS. Except with the prior written approval of First Merchants, on and after the date of this Agreement and until the Effective Date, Union National and Bank shall not, and shall not permit or authorize their respective directors, officers, employees, agents or representatives to, directly or indirectly, initiate, solicit, encourage, or engage in discussions or negotiations with, or provide information to, any corporation, association, partnership, person or other entity or group concerning any merger, consolidation, share exchange, combination, purchase or sale of substantial assets, sale of shares of capital stock (or securities convertible or exchangeable into or otherwise evidencing, or any agreement or instrument evidencing the right to acquire, capital stock), tender offer, acquisition of control of Union National or Bank or similar transaction involving Union National or Bank (all such transactions hereinafter referred to as "Acquisition Transactions"). Union National and Bank shall promptly communicate to First Merchants the terms of any proposal, written or oral, which either may receive with respect to an Acquisition Transaction and any request by or indication of interest on the part of any third party with respect to initiation of any Acquisition Transaction or discussion with respect thereto. The above provisions of this Section 7.05 notwithstanding, nothing contained in this Agreement shall prohibit (i) Union National from furnishing information to, or entering into discussions or negotiations with, any person or entity that makes an unsolicited proposal of an Acquisition Transaction if and to the extent that (a) the Board of Directors of Union National, after consultation with and based upon the written advice of legal counsel, determines in good faith that such action is required for the directors of Union National to fulfill their fiduciary duties and obligations to the Union National shareholders and other constituencies under Indiana law, and (b) prior to furnishing such information to, or entering into discussions or negotiations with, such person or entity, Union National provides immediate written notice to First Merchants to the effect that it is furnishing information to, or entering into discussions or negotiations with, such person or entity, or (ii) the Board of Directors of Union National from failing to make, withdrawing or modifying its recommendation to shareholders regarding the Merger following receipt of a proposal for an Acquisition Transaction if the Board of Directors of Union National, after consultation with and based upon the written advice of legal counsel, determines in good faith that such action is required for the directors of Union National to fulfill their fiduciary duties and obligations to the Union National shareholders and other constituencies under Indiana law.

7.06. RESTRICTIONS REGARDING AFFILIATES. Union National shall, within 30 days after the date of this Agreement and promptly thereafter until the Effective Date to reflect any changes, provide First Merchants with a list identifying each person who may be deemed to be an "affiliate" of Union National for purposes of Rule 145 under the Securities Act of 1933, as amended ("1933 Act"). Each director, executive officer and other person who is an "affiliate" of Union National for purposes of the 1933 Act shall deliver to First Merchants on or prior to the Effective Date hereunder a written agreement, in form and substance reasonably satisfactory to counsel to First Merchants, providing that such person will not sell, pledge, transfer, dispose of or otherwise reduce his market risk with respect to shares of First Merchants common stock to be received by such person pursuant to this Agreement (a) during the period 30 days prior to the Effective Date, (b) until such time as financial results covering at least 30 days of combined operations of First Merchants and Union National have been published within the meaning of Section 201.01 of the Securities and Exchange Commission's Codification of Financial Reporting Policies, except that any such affiliate may pledge the shares of First Merchants common stock received in connection with the Merger as collateral for other than non-recourse loans without compliance with this Section 7.06(b) and (c) unless such sales, pledges, transfers or dispositions are effected pursuant to an effective registration statement under the 1933 Act or pursuant to Rule 145 of the Securities and Exchange Commission or another exemption from the registration requirements set forth in the 1933 Act, or are otherwise not subject to the registration requirements set forth in the 1993 Act.

7.07. PRESS RELEASE. Neither Union National or Bank shall issue any press releases or make any other public announcements or disclosures relating to the Merger without the prior approval of First Merchants.

7.08. DISCLOSURE LETTER UPDATE. Union National shall promptly supplement, amend and update monthly and as of the Effective Date the Disclosure Letter with respect to any matters hereafter arising which, if in existence or having occurred as of the date of this Agreement, would have been required to be set forth or described in the Disclosure Letter.

7.09. COOPERATION. Union National shall generally cooperate with First Merchants and its officers, employees, attorneys, accountants and other agents, and, generally, do such other acts and things in good faith as may be reasonable, necessary or appropriate to timely effectuate the intents and purposes of this Agreement and the consummation of the transactions contemplated hereby. Prior to the Closing (as



defined in Section 12), Union National agrees to disclose to First Merchants any fact or matter that comes to the attention of Union National that might indicate that any of the representations or warranties of Union National may be untrue, incorrect, or misleading in any material respect.

## SECTION 8

### COVENANTS OF FIRST MERCHANTS

First Merchants covenants and agrees with Union National as follows:

8.01. APPROVALS. First Merchants shall proceed expeditiously, cooperate fully and use reasonable efforts to procure upon reasonable terms and conditions all consents, authorizations, approvals, registrations and certificates, to complete all filings and applications and to satisfy all other requirements prescribed by law which are necessary for consummation of the Merger on the terms and conditions provided in this Agreement. First Merchants shall provide Union National with copies of proposed regulatory filings in connection with the Merger and afford Union National the opportunity to offer comment on the filings before filing. The approval of First Merchants shareholders of the transactions contemplated by this Agreement is not required.

8.02. EMPLOYEE BENEFIT PLANS. Within one (1) year following the Effective Date, First Merchants will permit Bank employees to participate in any tax-qualified retirement plan First Merchants maintains for its employees, provided that such an employee meets the applicable participation requirements, in lieu of the Bank's current tax-qualified retirement plan. Until that time, the Bank's current tax-qualified retirement plan will be maintained at the same level, with respect to benefit accruals, provided for on the Effective Date. Following the Effective Date, Bank employees will otherwise receive employee benefits that in the aggregate provide substantially equivalent economic value in comparison to the employee benefits provided to those employees by Union National or the Bank on the Effective Date. For purposes of determining a Union National or Bank employee's eligibility and vesting service under a First Merchants employee benefit plan that the employee is permitted to enter, service with Union National or Bank will be treated as service with First Merchants; provided, however, that service with Union National and Bank will not be treated as service with First Merchants for purposes of benefit accrual.

8.03. FIRST MERCHANTS BOARD OF DIRECTORS. In connection with the first annual meeting of the shareholders of First

Merchants following the Effective Date, First Merchants shall cause all necessary action to be taken to cause two (2) of the current members of the Board of Directors of Union National to be nominated for election as members of the First Merchants' Board of Directors for three (3)-year terms.

8.04. PRESS RELEASE. Except as required by law, First Merchants shall not issue any press release to any national wire service relating solely to the Merger without the prior approval of Union National.

8.05. CONFIDENTIALITY. First Merchants shall, and shall use its best efforts to cause its officers, employees, and authorized representatives to, hold in strict confidence all confidential data and information obtained by it from Union National or Bank, unless such information (i) was already known to First Merchants, (ii) becomes available to First Merchants from other sources, (iii) is independently developed by First Merchants, (iv) is disclosed outside of First Merchants with and in accordance with the terms of prior written approval of Union National or Bank, or (v) is or becomes readily ascertainable from public or published information or trade sources or public disclosure of such information is required by law or requested by a court or other governmental agency, commission, or regulatory body. First Merchants further agrees that in the event the Agreement is terminated, it will return to Union National all information obtained by First Merchants regarding Union National or Bank, including all copies made of such information by First Merchants.

8.06. COVENANTS REGARDING THE BANK. Upon consummation of the Merger, the Bank shall be a bank organized under the laws of the State of Indiana and the officers and directors of the Bank in office immediately prior to the consummation of the Merger shall be the officers and directors of the Bank at the Effective Date subject to the provisions of the Bank's Articles of Incorporation and By-Laws. Thereafter, the Bank directors who desire to continue serve in that capacity shall do so for at least the remainder of the one (1) year terms to which they have been elected. The Bank directors will be subject to First Merchants' policy of mandatory retirement at age seventy (70); provided, however, the policy of mandatory retirement will not apply to any of the Bank's current directors until twelve (12) months after the Effective Date. First Merchants intends to continue to operate the Bank as an operating subsidiary of First Merchants under the name "The Union County National Bank of Liberty" with no changes in the number or locations of branches.

8.07. REGISTRATION STATEMENT; NASDAQ LISTING. First Merchants shall use reasonable efforts to prepare and file with

the Securities and Exchange Commission under the Securities Act of 1933, as amended, a registration statement on Form S-4 or other appropriate registration form to register the shares of common stock of First Merchants to be used in connection with the Merger (the "Registration Statement") and to cause the Registration Statement to be declared effective. First Merchants shall take all such action as is reasonably necessary to qualify the shares of common stock of First Merchants to be issued in connection with the Merger for quotation in the National Association of Securities Dealers Automated Quotation System - National Market System ("NASDAQ-NMS").

8.08 COOPERATION. First Merchants shall generally cooperate with Union National and its officers, employees, attorneys, accountants and other agents, and, generally, do such other acts and things in good faith as may be reasonable, necessary or appropriate to timely effectuate the intents and purposes of this Agreement and the consummation of the transactions contemplated hereby. Prior to the Closing (as defined in Section 12), First Merchants agrees to disclose to Union National any fact or matter that comes to the attention of First Merchants that might indicate that any of the representations or warranties of First Merchants may be untrue, incorrect, or misleading in any material respect.

## SECTION 9

### CONDITIONS PRECEDENT TO THE MERGER

The obligation of each of the parties hereto to consummate the transaction contemplated by this Agreement is subject to the satisfaction and fulfillment of each of the following conditions on or prior to the Effective Date:

9.01. SHAREHOLDER APPROVAL. The shareholders of Union National shall have approved, ratified and confirmed this Agreement as required by applicable law.

9.02. REGISTRATION STATEMENT EFFECTIVE. First Merchants shall have registered its shares of common stock to be issued to shareholders of Union National in accordance with this Agreement with the Securities and Exchange Commission pursuant to the 1933 Act, and all state securities and "blue sky" approvals and authorizations required to offer and sell such shares shall have been received by First Merchants. The registration statement with respect thereto shall have been declared effective by the Securities and Exchange Commission and no stop order shall have been issued or threatened. The shares of common stock of First

Merchants to be issued in connection with the Merger shall be eligible for quotation in NASDAQ-NMS upon notice of issuance.

9.03. TAX OPINION. The parties shall have obtained an opinion of counsel which shall be in form and content reasonably satisfactory to counsel for all parties hereto, to the effect that the Merger effected pursuant to this Agreement shall constitute a tax-free transaction (except to the extent cash is received) to each party hereto and to the shareholders of each party. Such opinion shall be based upon factual representations received by such counsel from the parties, which representations may take the form of written certifications.

9.04. AFFILIATE AGREEMENTS. First Merchants shall have obtained (a) from Union National, a list identifying each affiliate of Union National and (b) from each affiliate of Union National, the agreements contemplated by Section 7.06 hereof.

9.05. REGULATORY APPROVALS. The Board of Governors of the Federal Reserve System and the Indiana Department of Financial Institutions shall have authorized and approved the Merger and the transactions related thereto. In addition, all appropriate orders, consents, approvals and clearances from all other regulatory agencies and governmental authorities whose orders, consents, approvals or clearances are required by law for consummation of the transactions contemplated by this Agreement shall have been obtained.

9.06. OFFICER'S CERTIFICATE. First Merchants and Union National shall have delivered to each other a certificate signed by their Chairman or President and their Secretary, dated the Effective Date, certifying that (a) all the representations and warranties of their respective corporations are true, accurate and correct on and as of the Effective Date; (b) all the covenants of their respective corporations have been complied with from the date of the Agreement through and as of the Effective Date; and (c) their respective corporations have satisfied and fully complied with all conditions necessary to make this Agreement effective as to them.

9.07. FAIRNESS OPINION. Union National shall have obtained an opinion from an investment banker of its choosing to the effect that the terms of the Merger are fair to the shareholders of Union National from a financial viewpoint. Such opinion shall be (a) in form and substance reasonably satisfactory to Union National, (b) dated as of a date not later than the mailing date of the Proxy Statement relating to the Merger and (c) included in the Proxy Statement.

9.08. POOLING OF INTERESTS. First Merchants shall have obtained from its independent accountants, Geo. S. Olive & Co. LLC, or from a nationally recognized accounting firm, in First Merchants sole discretion, a letter to the effect that based upon their review of such documents and information as they deemed relevant, such firm is currently unaware of any reason why the Merger cannot be accounted for as a "pooling of interests."

#### SECTION 10

##### TERMINATION OF MERGER

10.01. MANNER OF TERMINATION. This Agreement and the transactions contemplated hereby may be terminated at any time prior to the Effective Date by written notice delivered by First Merchants to Union National or by Union National to First Merchants:

(a) By Union National or First Merchants, if there has been a material misrepresentation, breach of warranty or failure to comply with any covenant on the part of any party in the representations, warranties, and covenants set forth herein; provided the party in default shall have no right to terminate for its own default;

(b) By Union National or First Merchants, if it shall have reasonably determined that the transactions contemplated by this Agreement have become inadvisable or impracticable by reason of commencement or threat of material litigation or proceedings against any of the parties;

(c) By Union National or First Merchants if there have been any changes or events of any character, actual or threatened, since September 30, 1995, which in the aggregate materially adversely affect First Merchant's (on the one hand) or Union National's or the Bank's (on the other hand) business, prospects, condition (financial or otherwise), assets or results of operations (excluding events and conditions relating to the business environment in general and those set forth in the Disclosure Letter);

(d) By Union National or First Merchants, if the transaction contemplated herein has not been consummated by December 31, 1996;

(e) By First Merchants if any of the items, events or information set forth in any update to the Disclosure Letter has had or, in the reasonable discretion of First Merchants,

may have a material adverse effect on the financial condition, results of operations, business, or prospects of Union National or Bank;

(f) By First Merchants or Union National if, in the opinion of counsel to First Merchants or Union National, the Merger will not constitute a tax-free reorganization under the Code;

(g) By Union National if First Merchants or any of its subsidiary banks is acquired by a third party in a merger, consolidation, share exchange, stock transaction or asset transaction; if First Merchants enters into an agreement containing the terms and conditions of such a transaction; or if the terms and conditions of such a transaction are publicly disclosed;

(h) By Union National if between the date of this Agreement and the Effective Date, (i) First Merchants issues, grants, sells or redeems any of its capital stock, or issues, grants, sells or redeems any security, option, warrant or other right that provides for the purchase of capital stock of First Merchants or that is convertible or exercisable into shares of the capital stock of First Merchants, or makes or sets a record date for a distribution of any kind to holders of the capital stock of First Merchants other than regular quarterly cash dividends (excluding shares of First Merchants capital stock and options therefor issued in connection with the proposed merger of Randolph County Bancorp, Inc. with and into First Merchants or pursuant to First Merchants Dividend Reinvestment and Stock Purchase Plan, Stock Option Plans or Employee Stock Purchase Plans (collectively, an "Equity Transaction"), or enters into an agreement, contract or arrangement of any kind relating to an Equity Transaction, and (ii) such Equity Transaction, after giving effect to the Merger, would decrease the projected earnings per share or book value per share attributable to the shares to be received by the shareholders of Union National in connection with the Merger;

(i) By First Merchants if the Merger cannot be accounted for as a "pooling of interests;"

(j) By Union National, if the appropriate discharge of the fiduciary duties of the Board of Directors of Union National consistent with Section 7.05 requires that Union National terminate this Agreement; or

(k) By First Merchants if it receives written notice under Section 7.05 that Union National intends to furnish information to or enter into discussions or negotiations with a third party in connection with a proposed Acquisition Transaction, if Union National fails to give any such written notice as required in Section 7.05 or if Union National's Board of Directors fails to make, withdraws or modifies its recommendation to Union National shareholders to vote in favor of the Merger.

10.02. EFFECT OF TERMINATION. Except as set forth in this Section 10.02, upon termination by written notice, as provided in this Section, this Agreement shall be void and of no further force or effect and there shall be no obligation on the part of Union National or First Merchants or their respective officers, directors, employees, agents, or shareholders, except for payment of their respective expenses and First Merchants obligations under Section 8.05. Notwithstanding the foregoing, in the event of termination by First Merchants in accordance with Section 10.01(k) or by Union National in accordance with Section 10.01(j), Union National shall pay First Merchants the sum of Five Hundred Thousand Dollars (\$500,000.00) as liquidated damages. Such payment shall be made within ten (10) days of the date of notice of termination. Union National acknowledges the reasonableness of such amount in light of the considerable time and expense invested and to be invested by First Merchants and its representatives in furtherance of the Merger. Such amount was agreed upon by First Merchants and Union National as compensation to First Merchants for its time and expense and not as a penalty to Union National, it being impossible to ascertain the exact value of the time and expense to be invested. First Merchants shall also be entitled to recover from Union National its reasonable attorney's fees incurred in the enforcement of this Section.

#### SECTION 11

##### EFFECTIVE DATE OF MERGER

Subject to the terms and upon satisfaction of all requirements of law and the conditions specified in this Agreement, the Merger shall become effective at the close of business on the day specified in the Articles of Merger of Union National with and into First Merchants as filed with the Secretary of State of Indiana ("Effective Date"). The Effective Date shall occur no later than the last business day of the month in which that thirty (30) day period following the last approval of the Merger by a federal regulatory agency or governmental authority expires.

SECTION 12

CLOSING

12.01. CLOSING DATE AND PLACE. The closing of the Merger ("Closing") shall take place at the main office of First Merchants on the Effective Date.

12.02. ARTICLES OF MERGER. Subject to the provisions of this Agreement, on the Effective Date, the Articles of merger shall be duly filed with the Secretary of State of the State of Indiana.

12.03. OPINIONS OF COUNSEL. At the Closing, Union National shall deliver an opinion of its counsel, Ice Miller Donadio & Ryan, to First Merchants, and First Merchants shall deliver an opinion of its counsel, Bingham Summers Welsh & Spilman, to Union National, dated as of the date of the Closing and in form reasonably satisfactory to the other party and their counsel.

SECTION 13

MISCELLANEOUS

13.01. EFFECTIVE AGREEMENT. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but none of the provisions thereof shall inure to the benefit of any other person, firm, or corporation whomsoever. Neither this Agreement nor any of the rights, interests, or obligations hereunder shall be assigned or transferred by either party hereto without the prior written consent of the other party.

13.02. WAIVER; AMENDMENT.

(a) First Merchants and Union National may, by an instrument in writing executed in the same manner as this Agreement: (i) extend the time for the performance of any of the covenants or agreements of the other party under this Agreement; (ii) waive any inaccuracies in the representations or warranties of the other party contained in this Agreement or in any document delivered pursuant hereto or thereto; (iii) waive the performance by the other party of any of the covenants or agreements to be performed by it or them under this Agreement; or (iv) waive the satisfaction or fulfillment of any condition the non-satisfaction or nonfulfillment of which is a condition to the right of the party so waiving to terminate this



Agreement. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other or subsequent breach hereunder.

(b) Notwithstanding approval by the shareholders of Union National, this Agreement may be amended, modified, or supplemented by the written agreement of Union National and First Merchants without further approval of such shareholders, except that no such amendment, modification, or supplement shall result in a decrease in the consideration specified in Section 3 hereof or shall materially adversely affect the rights of shareholders of Union National without the further approval of such shareholders.

13.03. NOTICES. Any notice required or permitted by this Agreement shall be deemed to have been duly given if delivered in person, receipted for or sent by certified mail, return receipt requested, postage prepaid, addressed as follows:

If to First Merchants:	With a copy to:
200 E. Jackson Street	Bingham Summers Welsh & Spilman
Box 792	2700 Market Tower
Muncie, IN 47305	10 West Market Street
Attn: Stefan S. Anderson,	Indianapolis, Indiana 46204-2982
President	Attn: David R. Prechtel, Esq.

If to Union National:	With a copy to:
107 West Union	Ice Miller Donadio & Ryan
P. O. Box 217	One American Square, Box 82001
Liberty, IN 47353	Indianapolis, Indiana 46282-0002
Attn: Ted J. Montgomery,	Attn: Thomas H. Ristine, Esq.
President	

or such substituted address as any of them have given to the other in writing.

13.04. HEADINGS. The headings in this Agreement have been inserted solely for the ease of reference and should not be considered in the interpretation or construction of this Agreement.

13.05. SEVERABILITY. In case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be

construed as if such invalid, illegal, or unenforceable provision or provisions had never been contained herein.

13.06. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute one and the same instrument.

13.07. GOVERNING LAW. This Agreement is executed in and shall be construed in accordance with the laws of the State of Indiana.

13.08. ENTIRE AGREEMENT. This Agreement supersedes any other agreement, whether oral or written, between First Merchants and Union National relating to the matters contemplated hereby, and constitutes the entire agreement between the parties hereto.

13.09. EXPENSES. First Merchants and Union National shall each pay their own expenses incidental to the transactions contemplated hereby. It is understood that the cost of the fairness opinion referenced in Section 9.07 shall be borne by Union National whether or not the Merger is consummated.

IN WITNESS WHEREOF, First Merchants and Union National have made and entered into this Agreement as of the day and year first above written and have caused this Agreement to be executed and attested by their duly authorized officers.

FIRST MERCHANTS CORPORATION

ATTEST:

/S/ Rodney A. Medler  
-----  
Rodney A. Medler, Secretary

By /S/ Stefan S. Anderson  
-----  
Stefan S. Anderson, President

UNION NATIONAL BANCORP

ATTEST:

/S/ Millard E. Hays  
-----  
Millard E. Hays, Secretary

By /S/ Ted J. Montgomery  
-----  
Ted J. Montgomery, President

STOCKHOLDER INFORMATION

[GRAPHIC: MAP; FIRST MERCHANTS CORPORATION MARKET AREA]

First  
Merchants  
Corporation  
Market Area

Corporate Office  
200 East Jackson Street  
Muncie, IN 47305  
317-747-1500

First Merchants Corporation currently provides services through 21 offices located in Delaware, Madison, and Henry counties in Indiana.

First Merchants Corporation of Muncie, Indiana, was organized in September 1982, as the bank holding company for The Merchants National Bank, now First Merchants Bank, N.A., an institution which has served Muncie and the surrounding communities since 1893.

In November, 1988, First Merchants acquired Pendleton Banking Company of Pendleton, Indiana, a commercial bank which was organized in 1872.

In July, 1991, the Corporation acquired First United Bank of Middletown, Indiana, which was established in 1882.

First Merchants Corporation currently provides services through 21 offices located in Delaware, Madison, and Henry counties, Indiana.

Subsidiaries of First Merchants Corporation conduct a full range of banking operations, including commercial, industrial, consumer and real estate lending, deposit and investment services, and other banking services. First Merchants Bank, with more than \$914,000,000 in fiduciary assets at market value, operates one of the ten largest trust departments in Indiana.

First Merchants Corporation is committed to the sound management of its subsidiaries and to leading its east central Indiana marketplace in meeting customer banking needs and expectations.

STOCKHOLDER INFORMATION  
STOCK PRICE AND DIVIDEND INFORMATION

PRICE PER SHARE

QUARTER	HIGH		LOW		DIVIDENDS DECLARED	
	1995	1994	1995	1994	1995	1994
First Quarter	\$22.17	\$20.33	\$20.83	\$19.00	\$.19	\$.17
Second Quarter	23.50	19.67	21.33	18.67	.19	.17
Third Quarter	26.50	22.50	22.67	19.00	.20	.19
Fourth Quarter	26.75	22.33	25.75	20.33	.20	.19

The table above lists per share prices and dividend payments during 1994 and 1995, as adjusted for the 3-for-2 stock split of October, 1995.

Prices are as reported by the National Association of Securities Dealers Automated Quotation - National Market System.

Numbers rounded to the nearest cent when applicable.

STOCK INFORMATION

COMMON STOCK LISTING

First Merchants Corporation common stock is traded over-the-counter on the NASDAQ National Market System. Quotations are carried in many daily papers. The NASDAQ symbol is FRME (Cusip #320817-10-9). At the close of business on December 31, 1995, the number of shares outstanding was 5,053,901. There were 1,115 stockholders of record on that date.

STOCK TRANSFER AGENT AND REGISTRAR

First Merchants Bank, N.A.  
Corporate Trust Department  
P.O. Box 792  
Muncie, Indiana 47308-0792

GENERAL STOCKHOLDER INQUIRIES

Stockholders and interested investors may obtain information about the Corporation upon written request or by calling:

Mr. Douglas B. Harris  
Assistant Vice President  
Investor Services  
First Merchants Corporation  
P.O. Box 792  
Muncie, Indiana 47308-0792  
317-747-1500  
1-800-262-4261

MARKET MAKERS

The following firms make a market in First Merchants Corporation stock:

City Securities Corporation  
Herzog, Heine, Geduld, Inc.  
Howe, Barnes & Johnson, Inc.  
McDonald and Company  
NatCity Investments, Inc.  
David A. Noyes and Company

FORM 10-K AND FINANCIAL INFORMATION

First Merchants Corporation, upon request and without charge, will furnish stockholders, security analysts, and investors a copy of Form 10-K filed with the Securities and Exchange Commission. Please contact:

Mr. James Thrash  
Senior Vice President  
and Chief Financial Officer  
First Merchants Corporation  
P.O. Box 792  
Muncie, Indiana 47308-0792  
317-747-1390  
1-800-262-4261

ANNUAL MEETING

The Annual Meeting of Stockholders of First Merchants Corporation will be held Thursday, April 4, 1996, 3:30 p.m., at the Horizon Convention Center, 401 South High Street, Muncie, Indiana.



INDEPENDENT AUDITOR'S REPORT

To the Stockholders & Board of Directors  
First Merchants Corporation  
Muncie, Indiana

We have audited the consolidated balance sheet of First Merchants Corporation and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995 (pages 8-24). These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements described above present fairly, in all material respects, the consolidated financial position of First Merchants Corporation and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in the notes to the Consolidated Financial Statements, the Corporation changed its method of accounting for investments in securities in 1994 and for income taxes in 1993.

/S/ GEO S. OLIVE & CO. LLC

Indianapolis, Indiana  
January 19, 1996,  
except for Note 2 as to which  
the date is January 24, 1996

. . . . .  
. . . . .

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(INSIDE COVER)

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(Dollars in Thousands, Except per Share Amounts)

	1995	1994	1993	1992	1991
<b>OPERATIONS</b>					
Net Interest Income					
Fully Taxable Equivalent Basis . . . . .	\$ 29,245	\$ 28,282	\$ 26,806	\$ 26,400	\$ 23,277
Less Tax Equivalent Adjustment . . . . .	1,364	1,299	1,298	1,190	1,320
Net Interest Income . . . . .	27,881	26,983	25,508	25,210	21,957
Provision for Loan Losses . . . . .	640	782	1,014	1,357	1,401
Net Interest Income					
After Provision for Loan Losses . . . . .	27,241	26,201	24,494	23,853	20,556
Total Other Income . . . . .	6,907	6,298	6,588	5,576	5,229
Total Other Expenses . . . . .	18,842	18,434	18,214	17,603	15,792
Income Before Income Tax Expense . . . . .	15,306	14,065	12,868	11,826	9,993
Income Tax Expense . . . . .	5,448	4,907	4,396	4,041	3,234
Income Before Change in Accounting Method . . . . .	9,858	9,158	8,472	7,785	6,759
Change in Accounting Method for Income Taxes . . . . .			227		
Net Income . . . . .	\$ 9,858	\$ 9,158	\$ 8,699	\$ 7,785	\$ 6,759
<b>PER SHARE DATA (1)</b>					
Income Before Change in Accounting Method . . . . .	\$ 1.95	\$ 1.80	\$ 1.65	\$ 1.53	\$ 1.39
Net Income . . . . .	1.95	1.80	1.70	1.53	1.39
Cash Dividends Paid . . . . .	.77	.71	.63	.57	.57
December 31 Book Value . . . . .	15.92	14.07	13.53	12.53	11.57
December 31 Market Value (Bid Price) . . . . .	25.75	20.83	19.33	19.00	12.45
<b>AVERAGE BALANCES</b>					
Total Assets . . . . .	\$665,347	\$634,868	\$626,398	\$603,067	\$560,412
Total Loans . . . . .	413,940	388,639	357,028	329,750	300,276
Total Deposits . . . . .	538,539	514,029	517,826	501,526	441,302
Total Stockholders' Equity . . . . .	76,001	70,104	66,887	61,246	54,473
<b>YEAR-END BALANCES</b>					
Total Assets . . . . .	\$707,859	\$644,606	\$626,113	\$616,859	\$596,573
Total Loans . . . . .	419,730	401,605	376,872	350,308	323,382
Total Deposits . . . . .	588,156	529,830	506,302	511,971	484,824
Total Stockholders' Equity . . . . .	80,473	71,018	68,804	63,935	58,472
<b>FINANCIAL RATIOS</b>					
Return on Average Assets . . . . .	1.48%	1.44%	1.39%	1.29%	1.21%
Return on Average Stockholders' Equity . . . . .	12.97	13.06	13.01	12.71	12.41
Average Earning Assets to Total Assets . . . . .	94.65	94.05	93.71	93.93	93.82
Allowance for Loan Losses as % of Total Loans . . . . .	1.18	1.24	1.27	1.24	1.20
Dividend Payout Ratio . . . . .	39.49	39.44	37.06	37.25	38.13
Average Stockholders' Equity to Average Assets . . . . .	11.42	11.04	10.68	10.16	9.72
Tax Equivalent Yield on Earning Assets . . . . .	8.15	7.44	7.38	8.31	9.48
Cost of Supporting Liabilities . . . . .	3.51	2.70	2.81	3.65	5.05
Net Interest Margin on Earning Assets . . . . .	4.64	4.74	4.57	4.66	4.43

(1) Restated for 3- for- 2 stock splits distributed January, 1993, and October, 1995.

The amounts include First United Bank, subsequent to its acquisition on July 31, 1991.

MANAGEMENT'S DISCUSSION & ANALYSIS

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-----  
Asset quality has been a major factor in the Corporation's ability to generate consistent profit improvement.

[Graphic; bar chart; Return on Average Assets]

[Graphic; bar chart; Return on Average Equity]

RESULTS OF OPERATIONS

Net income amounted to \$9,858,000 or \$1.95, an increase of 8.3 per cent over 1994 at \$1.80 per share.

Return on assets increased to a record level of 1.48 per cent, up from 1.44 per cent in 1994, and 1.39 per cent in 1993.

Return on equity was 12.97 per cent in 1995, 13.06 per cent in 1994, and 13.01 per cent in 1993.

In 1995, First Merchants Corporation ("Corporation") recorded the twentieth consecutive year of improvement in net income on both an aggregate and per share basis.

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 capital ratio was 11.37 per cent at year-end 1995 and 11.02 per cent at December 31, 1994. At December 31, 1995, the Corporation had a Tier I risk-based capital ratio of 16.99 per cent, total risk-based capital ratio of 18.07 per cent, and a leverage ratio of 11.13 per cent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 per cent and a total risk-based capital ratio of 8.0 per cent.

The Corporation has an employee stock purchase plan and an employee stock option plan. Activity under these plans is described in Note 14 to the Consolidated Financial Statements. The transactions under these plans have not had a material effect on the Corporation's capital position.

ASSET QUALITY/PROVISION FOR LOAN LOSSES

The Corporation's asset quality and loan loss experience has 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 review program. 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 and its peer group consisting of bank holding companies with average assets between \$500 million and \$1 billion. The peer group statistics were provided by the Federal Reserve System. The table indicates that the Corporation's loan quality compares favorably with the peer group.

(continued)



MANAGEMENT'S DISCUSSION & ANALYSIS

ASSET QUALITY/PROVISION FOR LOAN LOSSES (continued)

[Graphic; bar chart; Net Loan Losses]

NON-PERFORMING LOANS (1) at DECEMBER 31 as a PER CENT of LOANS

	FIRST MERCHANTS CORPORATION	PEER GROUP
1995 . . . . .	.16%	N/A
1994 . . . . .	.26	1.01%
1993 . . . . .	.30	1.55
1992 . . . . .	.41	1.85
1991 . . . . .	.86	2.59

(1) Accruing loans past due 90 days or more, and non-accruing loans, but excluding restructured loans. December 31, 1995, peer group comparisons are not yet available.

At December 31, 1995, the allowance for loan losses was \$4,957,000, down slightly from year end 1994. As a per cent of loans, the allowance was 1.18 per cent, down from 1.24 per cent at year end 1994.

The table below presents loan loss experience for the years indicated and compares the Corporation's loss experience to that of its peer group. Again, the Corporation compares favorably.

	1995	1994	1993	1992	1991
(Dollars in Thousands)					
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 . . . . .	586	526	391	588	806
Real estate mortgage . . . . .		41	129	100	41
Installment . . . . .	296	346	388	552	511
Total chargeoffs . . . . .	882	913	908	1,240	1,358
Recoveries:					
Commercial . . . . .	89	216	240	215	227
Real estate mortgage . . . . .	4	30	5	38	7
Installment . . . . .	108	83	98	114	84
Total recoveries . . . . .	201	329	343	367	318
Net chargeoffs . . . . .	681	584	565	873	1,040
Provision for loan losses . . . . .	640	782	1,014	1,357	1,401
Balance at December 31 . . . . .	\$ 4,957	\$ 4,998	\$ 4,800	\$ 4,351	\$ 3,867
Ratio of net chargeoffs during the period to average loans outstanding during the period . . . . .	.16%	.15%	.16%	.26%	.35%
Peer Group . . . . .	N/A	.25%	.49%	.65%	.95%

As a result of Management's assessment of loan quality and the adequacy of the allowance for loan losses, the 1995 provision for loan losses was reduced \$142,000. Chargeoffs exceeded the amount provided by \$41,000. The Corporation adopted SFAS No. 114 and No. 118 ACCOUNTING BY CREDITORS FOR IMPAIRMENT OF A LOAN AND ACCOUNTING BY CREDITORS FOR IMPAIRMENT OF A LOAN - INCOME RECOGNITION AND DISCLOSURE on January 1, 1995. Impaired loans totaled \$3,122,000 at December 31, 1995. An allowance for losses at December 31, 1995, was not deemed necessary for impaired loans totaling \$1,900,000, but an allowance of \$559,000 was recorded for the remaining balance of impaired loans

of \$1,222,000. The average balance of impaired loans for 1995 was \$1,682,000.

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 liquidity, rates sensitivity, the Corporation's exposure to changes in net interest income given various rate scenarios, and the economic and competitive environments.

The Corporation's liquidity and interest sensitivity position at December 31, 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 December 31, 1995.

INTEREST-RATE SENSITIVITY ANALYSIS  
(Dollars in Thousands)

AT DECEMBER 31, 1995					
	1-180 DAYS	181 - 365 DAYS	1-5 YEARS	BEYOND 5 YEARS	TOTAL
<b>Rate-Sensitive Assets:</b>					
Federal funds sold and interest-bearing time deposits . . . . .	\$ 37,655				\$ 37,655
Securities available for sale . . . . .	20,878	\$ 10,544	\$ 97,717	\$ 13,981	143,120
Securities held to maturity . . . . .	11,823	7,882	35,023	3,486	58,214
Mortgage loans held for sale . . . . .				736	736
Loans . . . . .	216,417	46,588	105,521	50,468	418,994
Federal Reserve and Federal Home Loan Bank stock . . . . .	1,585			307	1,892
<b>Total rate-sensitive assets . . . . .</b>	<b>288,358</b>	<b>65,014</b>	<b>238,261</b>	<b>68,978</b>	<b>660,611</b>
<b>Rate Sensitive Liabilities:</b>					
Interest-bearing deposits . . . . .	212,175	29,162	247,318	68	488,723
Short-term borrowings . . . . .	33,975				33,975
Federal Home Loan Bank advance . . . . .	1,000				1,000
<b>Total rate-sensitive liabilities . . . . .</b>	<b>247,150</b>	<b>29,162</b>	<b>247,318</b>	<b>68</b>	<b>523,698</b>
<b>Interest rate sensitivity gap by period . . . . .</b>	<b>\$ 41,208</b>	<b>\$ 35,852</b>	<b>\$ (9,057)</b>	<b>\$ 68,910</b>	
Cumulative gap . . . . .	41,208	77,060	68,003	136,913	
Cumulative ratio at December 31, 1995 . . . . .	116.67%	127.89%	112.99%	126.14%	

EARNING ASSETS

Earning assets increased \$76.4 million during 1995 after declining \$.8 million during 1994.

The following table presents the earning asset mix for the years 1995, 1994 and 1993.

EARNING ASSETS

(Dollars in Millions)

	DECEMBER 31		
	1995	1994	1993
Federal funds sold and interest-bearing time deposits . . . . .	\$ 37.7	\$ 3.7	\$ 1.9
Securities available for sale . . . . .	143.1	99.3	
Securities held to maturity . . . . .	58.2	77.7	204.3
Mortgage loans held for sale . . . . .	.7		
Loans . . . . .	419.0	401.6	376.9
Federal Reserve and Federal Home Loan Bank stock . . . . .	1.9	1.9	1.9
<b>Total . . . . .</b>	<b>\$660.6</b>	<b>\$584.2</b>	<b>\$585.0</b>

MANAGEMENT'S DISCUSSION & ANALYSIS  
(Dollars in Thousands)

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

The following tables present the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements with customers, U.S. Treasury demand notes and Federal Home Loan Bank stock) based on both year-end levels and daily average balances for the past three years:

AS OF DECEMBER 31

	DEPOSITS	SHORT-TERM BORROWINGS	FEDERAL HOME LOAN BANK ADVANCE
1995	\$ 588,156	\$ 33,975	\$ 1,000
1994	529,830	39,189	
1993	506,302	46,890	

AVERAGE BALANCES

	DEPOSITS	SHORT-TERM BORROWINGS	FEDERAL HOME LOAN BANK ADVANCE
1995	\$ 538,539	\$ 44,799	\$ 515
1994	514,029	45,639	
1993	517,826	35,317	

NET INTEREST INCOME

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

The table below presents the Corporation's asset yields, interest expense, and net interest income as a per cent of average earning assets for the five-year period ending in 1995.

Asset yields improved in 1995 ( .71 per cent), while interest expense increased .81 per cent.

The resulting "spread" decrease of .10 per cent (4.64% vs 4.74%) was offset by a \$32.7 million increase in earning assets enabling fully taxable equivalent net interest income to grow by \$963,000.

	INTEREST INCOME (FTE) as a Per Cent of Average Earning Assets	INTEREST EXPENSE as a Per Cent of Average Earning Assets	NET INTEREST INCOME (FTE) as a Per Cent of Average Earning Assets	AVERAGE EARNING ASSETS	NET INTEREST INCOME on a Fully Taxable Equivalent Basis
1995	8.15%	3.51%	4.64%	\$ 629,784	\$ 29,245
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

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 reached \$6,907,000 in 1995, exceeding the prior year by \$609,000 or 9.7 per cent. Major factors included:

1. A \$205,000 (8.0 per cent) increase in trust revenues.
2. A gain of \$205,000 on the sale of approximately \$8,000,000 of the Corporation's student loans.

Other income declined in 1994 by \$290,000, (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 \$6,239,000 (2.2 per cent).

#### OTHER EXPENSE

Total "other expenses" represent non-interest operating expenses of the Corporation. Those expenses amounted to \$18,842,000 in 1995, an increase of 2.2 per cent from the prior year.

Salary and benefit expenses, which account for over one-half of the Corporation's non-interest operating expenses, increased by \$510,000 (5.1 per cent). Increases in occupancy, equipment, printing, and office supplies and advertising expenses totaling \$449,000 were offset by a \$530,000 reduction in the cost of deposit insurance and by a refund of \$238,000 from the State of Indiana for intangibles taxes paid in 1988 and 1989.

1994 expenses at \$18,434,000 exceeded the prior year by \$219,000 (1.2 per cent). Salary and benefit expenses increased by \$928,000 (10.2 per cent). Approximately

(continued)

OTHER EXPENSE (continued)

one-fourth of that increase was attributable to the change in the corporation's data processing function described below. This change resulted in a direct reduction of computer processing fees amounting to \$1,046,000.

In the fourth quarter of 1993, First Merchants 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 the conversion equipment and software was approximately \$1,700,000.

The equipment and software costs will be depreciated on a straight-line method based on useful lives of the assets. The Corporation estimates that data processing costs declined under the new arrangement (net of additional salary, benefit, equipment and software costs) by more than \$400,000.

INCOME TAXES

The increase in 1995 tax expense of \$541,000 is attributable primarily to a \$1,241,000 increase in net pre-tax income. Likewise, the \$512,000 increase in 1994 resulted from a \$1,198,000 increase in pre-tax net income.

FEDERAL and STATE INCOME TAXES

(Dollars in Thousands)

	1995	1994	1993
Federal taxes	\$ 4,146	\$ 3,735	\$ 3,272
State taxes	1,302	1,172	1,124
Total	\$ 5,448	\$ 4,907	\$ 4,396

ACCOUNTING MATTERS

Derivative Financial Instruments and Fair Value of Financial Statements

SFAS No. 119 ("SFAS 119") requires disclosure about derivative financial instruments-futures, forwards, swap and option contracts and other financial instruments with similar characteristics (e.g., interest rate caps or floors and loan commitments). The definition of derivatives excludes all on-balance sheet receivables and payables, including those that "derive" their values or cash flows from the price of another security or index, such as mortgage-backed securities and interest-only obligations.

SFAS 119 requires disclosures about amounts, nature and terms of derivatives that are not subject to SFAS No. 105 because they do not result in off-balance sheet risk of accounting loss. It requires that a distinction be made between financial instruments held or issued for trading purposes and financial instruments held or issued for purposes other than trading. The required disclosures, either in the body of the financial statements or in the footnotes, include: (i) the face or contract amount (or notional principal amount) and ii) the nature and terms, including at a minimum, a discussion of: (1) the credit and market risk of those instruments, (2) the cash requirements of those instruments, and (3) the related accounting policy.

SFAS 119 amends SFAS No. 105 and No. 107 to require disaggregation of information about financial instruments with off-balance sheet risk of accounting loss and to require that fair value information be presented without combining, aggregating or netting the fair values of derivatives with fair value of nonderivatives and be presented together with the related carrying amounts in the body of the financial statements, a single footnote or a summary table in a form that makes it clear whether the amounts represent assets or liabilities. SFAS 119 was effective for the Company's financial statements issued for the year ended December 31, 1995.

At December 31, the Corporation did not have any derivative financial instruments as defined in SFAS 115.

Accounting for Mortgage Servicing Rights

During 1995, the FASB issued SFAS No. 122 ("SFAS 122") ACCOUNTING FOR MORTGAGE SERVICING RIGHTS. SFAS 122 pertains to mortgage banking enterprises and financial institutions that conduct operations that are substantially similar to the primary operations of a mortgage banking enterprise. SFAS 122 eliminates the accounting distinction between mortgage servicing rights that are acquired through loan origination activities and those acquired through purchase transactions. Under SFAS 122, if a mortgage banking enterprise sells or securitizes loans and retains the mortgage servicing rights, the enterprise must allocate the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the rights) based on their relative fair values if

(continued)

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ACCOUNTING MATTERS (continued)

it is practicable to estimate those fair values. If it is not practicable, the entire cost should be allocated to the mortgage loans and no cost should be allocated to the mortgage servicing rights. As entity would measure impairment of mortgage service rights and loans based on the excess of the carrying amount of the mortgage servicing rights portfolio over the fair value of that portfolio.

SFAS 122 is to be applied prospectively in fiscal years beginning after December 15, 1995, to transactions in which an entity acquires mortgage servicing rights and to impairment evaluations of all capitalized mortgage servicing rights. The Company has not yet determined the impact of SFAS 122 on its financial condition and results of operations.

Accounting for Stock-based Compensation

The FASB issued SFAS 123, STOCK-BASED COMPENSATION. In December, 1994, the FASB decided to require expanded disclosures rather than recognition of compensation cost for fixed, at the money, options rather than recognition of compensation expense as was originally proposed in the ED.

This statement establishes a fair value based method of accounting for stock-based compensation plans. The FASB encourages employers to recognize the related compensation expense; however, employers are permitted to continue to apply the provisions of APB Opinion No. 25. Employers that choose to continue to follow APB No. 25 are required to disclose in notes to the financial statements the pro forma effects on their net income and earnings per share of the new accounting method.

SFAS 123 is effective for the Corporation in 1996. The Corporation has not yet determined the impact of adopting SFAS 123 on net income or financial position in the year of adoption.

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 the Corporation's 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.

CONSOLIDATED BALANCE SHEET

DECEMBER 31

	1995	1994
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<b>ASSETS</b>		
Cash and due from banks . . . . .	\$ 31,432,299	\$ 42,684,174
Federal funds sold . . . . .	37,500,000	3,675,000
	-----	-----
Cash and cash equivalents . . . . .	68,932,299	46,359,174
Interest-bearing time deposits . . . . .	155,441	23,117
Investment securities		
Available for sale . . . . .	143,119,910	99,363,240
Held to maturity . . . . .	58,213,962	77,676,818
	-----	-----
Total investment securities . . . . .	201,333,872	177,040,058
Mortgage loans held for sale . . . . .	735,522	
Loans . . . . .	418,994,250	401,604,848
Less: Allowance for loan losses . . . . .	(4,957,467)	(4,997,847)
	-----	-----
Net Loans . . . . .	414,036,783	396,607,001
Premises and equipment . . . . .	10,475,935	9,545,153
Federal Reserve and Federal Home Loan Bank stock . . . . .	1,891,800	1,879,300
Interest receivable . . . . .	6,187,277	5,627,391
Core deposit intangibles and goodwill . . . . .	1,845,417	1,976,594
Other assets . . . . .	2,264,833	5,548,184
	-----	-----
Total assets . . . . .	\$707,859,179	\$644,605,972
	-----	-----
<b>LIABILITIES</b>		
Deposits:		
Noninterest bearing . . . . .	\$ 99,432,455	\$ 99,667,435
Interest bearing . . . . .	488,723,230	430,162,771
	-----	-----
Total deposits . . . . .	588,155,685	529,830,206
Short-term borrowings . . . . .	33,975,269	39,188,990
Federal Home Loan Bank advance . . . . .	1,000,000	
Interest payable . . . . .	1,866,499	1,319,917
Other liabilities . . . . .	2,389,037	3,248,790
	-----	-----
Total liabilities . . . . .	627,386,490	573,587,903
	-----	-----
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, no par value:		
Authorized and unissued--500,000 shares		
Common stock, \$.125 stated value:		
Authorized--20,000,000 shares		
Issued and outstanding--5,053,901 and 3,366,346 shares . . . . .	631,737	420,793
Additional paid-in capital . . . . .	15,852,082	16,230,765
Retained earnings . . . . .	62,836,310	56,886,450
Net unrealized gain (loss) on securities available for sale . . . . .	1,152,560	(2,519,939)
	-----	-----
Total stockholders' equity . . . . .	80,472,689	71,018,069
	-----	-----
Total liabilities and stockholders' equity . . . . .	\$707,859,179	\$644,605,972
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See Notes to Consolidated Financial Statements.



CONSOLIDATED STATEMENT OF INCOME

	YEAR ENDED DECEMBER 31		
	1995	1994	1993
<b>INTEREST INCOME</b>			
Loans receivable:			
Taxable . . . . .	\$ 37,750,745	\$ 31,721,626	\$28,704,848
Tax exempt . . . . .	55,295	83,412	122,422
Investment securities:			
Taxable . . . . .	8,623,701	8,552,888	10,264,922
Tax exempt . . . . .	2,474,920	2,434,992	2,396,031
Federal funds sold . . . . .	906,564	217,035	453,805
Deposits with financial institutions . . . . .	3,728	1,743	35,295
Federal Reserve and Federal Home Loan Bank stock	149,110	102,785	28,933
Total interest income . . . . .	49,964,063	43,114,481	42,006,256
<b>INTEREST EXPENSE</b>			
Deposits . . . . .	19,565,304	14,294,358	15,431,588
Short-term borrowings . . . . .	2,489,963	1,836,794	1,066,592
Federal Home Loan Bank advance . . . . .	27,502		
Total interest expense . . . . .	22,082,769	16,131,152	16,498,180
NET INTEREST INCOME . . . . .	27,881,294	26,983,329	25,508,076
Provision for loan losses . . . . .	640,000	782,000	1,013,765
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES . . . . .	27,241,294	26,201,329	24,494,311
<b>OTHER INCOME</b>			
Fiduciary activities . . . . .	2,754,667	2,549,660	2,408,632
Service charges on deposit accounts . . . . .	2,377,712	2,380,166	2,506,483
Other customer fees . . . . .	1,159,421	1,061,332	1,049,751
Net realized gains(losses) on sale of available-for-sale securities . . . . .	(66,404)	(31,317)	394,551
Other income . . . . .	681,142	337,927	228,794
Total other income . . . . .	6,906,538	6,297,768	6,588,211
<b>OTHER EXPENSES</b>			
Salaries and employee benefits . . . . .	10,561,065	10,051,455	9,123,874
Net occupancy expenses . . . . .	1,209,807	1,106,107	1,096,771
Equipment expenses . . . . .	1,674,234	1,586,398	1,138,180
Computer processing fees . . . . .	138,463	130,882	1,176,957
Deposit insurance expense . . . . .	604,019	1,134,194	1,138,463
Printing and office supplies . . . . .	915,703	760,646	771,593
Advertising expense . . . . .	586,738	484,657	525,685
Other expenses . . . . .	3,151,836	3,179,536	3,243,368
Total other expenses . . . . .	18,841,865	18,433,875	18,214,891
<b>INCOME BEFORE INCOME TAX AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING METHOD . . . . .</b>			
Income tax expense . . . . .	15,305,967	14,065,222	12,867,631
Income tax expense . . . . .	5,448,153	4,907,459	4,395,920
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING METHOD . . . . .	9,857,814	9,157,763	8,471,711
CUMULATIVE EFFECT OF CHANGE IN METHOD OF ACCOUNTING FOR INCOME TAXES . . . . .			227,329
NET INCOME . . . . .	\$ 9,857,814	\$ 9,157,763	\$ 8,699,040
<b>PER SHARE . . . . .</b>			
Income before cumulative effect of change in accounting method . . . . .	\$ 1.95	\$ 1.80	\$ 1.65
Net Income . . . . .	\$ 1.95	\$ 1.80	\$ 1.70
WEIGHTED AVERAGE SHARES OUTSTANDING . . . . .	5,055,169	5,077,307	5,124,626

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	NET UNREALIZED GAIN (LOSS) ON SECURITIES AVAILABLE FOR SALE	TOTAL
BALANCES, JANUARY 1, 1993 . . . . .	3,402,213	\$ 425,277	\$17,683,626	\$45,825,656		\$63,934,559
Net income for 1993 . . . . .				8,699,040		8,699,040
Cash dividends (\$.63 per share). . . . .				(3,212,727)		(3,212,727)
Stock issued under employee benefit plans . . . . .	11,817	1,477	246,286			247,763
Stock issued under dividend reinvestment and stock purchase plan . . . . .	9,858	1,232	285,717			286,949
Stock options exercised. . . . .	9,299	1,163	153,222			154,385
Stock redeemed . . . . .	( 43,500)	( 5,438)	( 1,296,000)			(1,301,438)
Cash paid in lieu of issuing fractional shares . . . . .	( 96)	( 12)	( 4,248)			( 4,260)
BALANCES, DECEMBER 31, 1993 . . . . .	3,389,591	423,699	17,068,603	51,311,969		68,804,271
Net income for 1994 . . . . .				9,157,763		9,157,763
Cash dividends (\$.71 per share). . . . .				(3,583,282)		(3,583,282)
Cumulative effect of change in method of accounting for securities, net of taxes of \$422,334 . . . . .					\$ 643,896	643,896
Net change in unrealized gain (loss) on securities available for sale, net of taxes of \$2,075,170 . . . . .					(3,163,835)	(3,163,835)
Stock issued under employee benefit plans . . . . .	10,543	1,318	248,485			249,803
Stock issued under dividend reinvestment and stock purchase plan . . . . .	11,670	1,459	355,745			357,204
Stock options exercised. . . . .	4,875	609	107,275			107,884
Stock redeemed . . . . .	( 50,333)	( 6,292)	( 1,549,343)			(1,555,635)
BALANCES, DECEMBER 31, 1994 . . . . .	3,366,346	420,793	16,230,765	56,886,450	( 2,519,939)	71,018,069
Net income for 1995 . . . . .				9,857,814		9,857,814
Cash dividends (\$.77 per share). . . . .				( 3,907,954)		(3,907,954)
Net change in unrealized gain (loss) on securities available for sale, net of taxes of \$2,408,806. . . . .					3,672,499	3,672,499
Stock issued under employee benefit plans . . . . .	11,175	1,397	275,254			276,651
Stock issued under dividend reinvestment and stock purchase plan . . . . .	13,928	1,741	1,454,498			456,239
Stock options exercised. . . . .	9,267	1,158	191,251			192,409
Stock redeemed . . . . .	(30,000)	(3,750)	(1,085,125)			(1,088,875)
Three-for-two stock split. . . . .	1,683,344	210,418	( 210,418)			
Cash paid in lieu of issuing fractional shares . . . . .	(159)	(20)	( 4,143)			( 4,163)
BALANCES, DECEMBER 31, 1995 . . . . .	5,053,901	\$ 631,737	\$15,852,082	\$ 62,836,310	\$ 1,152,560	\$80,472,689

See Note to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	1995	1994	1993
OPERATING ACTIVITIES:			
Net income . . . . .	\$ 9,857,814	\$ 9,157,763	\$ 8,699,040
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses. . . . .	640,000	782,000	1,013,765
Depreciation and amortization. . . . .	1,145,833	1,125,697	696,782
Amortization of goodwill and intangibles . . . . .	131,177	131,177	131,181

(continued)



CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	YEAR ENDED DECEMBER 31		
	1995	1994	1993
Deferred income tax . . . . .	\$ 340,302	\$( 127,976)	\$( 542,266)
Securities amortization, net . . . . .	597,523	1,161,783	987,365
Securities losses (gains), net . . . . .	66,404	31,317	( 394,551)
Mortgage loans originated for sale . . . . .	( 4,491,484)		
Proceeds from sales of mortgage loans . . . . .	3,785,283		
Net change in:			
Interest receivable . . . . .	497,818	28,505	191,612
Interest payable . . . . .	546,582	93,750	( 279,409)
Other adjustments . . . . .	( 300,938)	163,867	829,887
Net cash provided by operating activities . . . . .	11,820,678	12,490,873	11,333,406
INVESTING ACTIVITIES:			
Net change in interest-bearing deposits . . . . .	( 132,324)	230,737	1,250,620
Purchases of:			
Securities available for sale . . . . .	(71,857,503)	( 24,216,114)	
Securities held to maturity . . . . .	(31,786,823)	( 30,833,553)	(120,299,746)
Proceeds from maturities of:			
Securities available for sale . . . . .	26,537,062	12,424,651	
Securities held to maturity . . . . .	46,522,672	49,498,914	104,327,097
Proceeds from sales of:			
Securities available for sale . . . . .	11,695,656	15,083,461	
Securities held to maturity . . . . .			5,430,571
Net change in loans . . . . .	(18,560,933)	( 25,767,003)	( 27,530,846)
Purchases of premises and equipment . . . . .	( 2,076,615)	( 1,230,215)	( 2,642,213)
Other investing activities . . . . .	375,190	707,118	683,511
Net cash used by investing activities . . . . .	(39,283,618)	( 4,102,004)	( 38,781,006)
FINANCING ACTIVITIES:			
Net change in:			
Noninterest-bearing, interest-bearing and savings deposits . . . . .	6,602,698	24,818,997	12,890,301
Certificates of deposit and other time deposits . . . . .	51,722,781	( 1,290,957)	(18,559,253)
Short-term borrowings . . . . .	( 5,213,721)	( 7,701,137)	9,817,127
Federal Home Loan Bank advance . . . . .	1,000,000		
Cash dividends . . . . .	( 3,907,954)	( 3,583,282)	( 3,212,727)
Stock issued under employee benefit plans . . . . .	276,651	249,803	247,763
Stock issued under dividend reinvestment and stock purchase plan . . . . .	456,239	357,204	286,949
Stock options exercised . . . . .	192,409	107,884	154,385
Stock redeemed . . . . .	( 1,088,875)	( 1,555,635)	( 1,301,438)
Cash paid in lieu of issuing fractional shares . . . . .	( 4,163)		( 4,260)
Net cash provided by financing activities . . . . .	50,036,065	11,402,877	318,847
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .	22,573,125	19,791,746	(27,128,753)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR . . . . .	46,359,174	26,567,428	53,696,181
CASH AND CASH EQUIVALENTS, END OF YEAR . . . . .	\$ 68,932,299	\$ 46,359,174	\$ 26,567,428
ADDITIONAL CASH FLOWS INFORMATION:			
Interest paid . . . . .	\$ 21,536,187	\$ 16,037,402	\$ 16,777,589
Income tax paid . . . . .	5,065,558	4,997,385	5,004,469

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Table Dollar Amounts in Thousands, Except Per Share Amounts)

NOTE 1  
NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of First Merchants Corporation ("Corporation"), and its wholly owned subsidiaries, First Merchants Bank, N.A. ("First Merchants"), Pendleton Banking Company ("Pendleton"), and First United Bank ("First United"), (collectively "the Banks",) conform to generally accepted accounting principles and reporting practices followed by the banking industry. The more significant of the policies are described below.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Corporation is a bank holding company whose principal activity is the ownership and management of the Banks. First Merchants operates under a national bank charter and provides full banking services, including trust services. As a national bank, First Merchants is subject to the regulation of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. Pendleton and First United operate under state bank charters and provide full banking services, including trust services. As state banks, Pendleton and First United are subject to the regulation of the Department of Financial Institutions, State of Indiana, and the Federal Deposit Insurance Corporation.

The Banks generate commercial, mortgage, and consumer loans and receive deposits from customers located primarily in central Indiana. The Banks' loans are generally secured by specific items of collateral, including real property, consumer assets, and business assets. Although the Banks have a diversified loan portfolio, a substantial portion of their debtors' ability to honor their contracts is dependent upon economic conditions in the automotive industry.

**CONSOLIDATION** - The consolidated financial statements include the accounts of the Corporation and the Banks, after elimination of all material intercompany transactions and accounts.

**INVESTMENT SECURITIES** - The Corporation adopted Statement of Financial Accounting Standards ("SFAS") No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES, on January 1, 1994.

Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost.

Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported separately through stockholders' equity, net of tax.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

At January 1, 1994, investment 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 taxes, of \$644,000.

Prior to the adoption of SFAS No. 115, investment securities were carried at cost, adjusted for amortization of premiums and discounts, and securities held for sale and marketable equity securities were carried at the lower of aggregate cost or market. Realized gains and losses on sales were included in other income. Unrealized losses on securities held for sale were included in other income. Unrealized losses on marketable equity securities were charged to stockholders' equity. Gains and losses on the sale of securities were determined on the specific-identification method.

**MORTGAGE LOANS HELD FOR SALE** are carried at the lower of aggregate cost or market. Net unrealized losses are recognized through a valuation allowance by charges to income.

**LOANS** are carried at the principal amount outstanding. Interest income is accrued on the principal balances of loans. Loans are placed in a nonaccrual status when the collection of interest becomes doubtful. Interest income previously accrued, but not deemed collectible, is reversed and charged against current income. Interest on nonaccrual loans is then recognized as income when collected. Loans are considered impaired when it becomes probable that the Banks will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income on these loans is recognized as described above depending on the accrual status of the loan. Certain loan fees and direct costs are being deferred and amortized as an adjustment of yield on the loans.

**ALLOWANCE FOR LOAN LOSSES** is maintained to absorb potential loan losses based on management's continuing review and evaluation of the loan portfolio and its judgment as to the impact of economic conditions on the portfolio. The evaluation by



NOTE 1  
NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

management includes consideration of past loss experience, changes in the composition of the loan portfolio, the current condition and amount of loans outstanding, and the probability of collecting all amounts due. Impaired loans are measured by the present value of expected future cash flows, or the fair value of the collateral of the loan, if collateral dependent.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. Management believes that, as of December 31, 1995, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the area within which the Corporation operates would increase the likelihood of additional losses due to credit and market risks and could create the need for additional loss reserves.

PREMISES AND EQUIPMENT are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred, while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

FEDERAL RESERVE AND FEDERAL HOME LOAN BANK STOCK are required investments for institutions that are members of the Federal Reserve Bank ("FRB") and Federal Home Loan Bank ("FHLB") systems. The required investment in the common stock is based on a predetermined formula.

ADVERTISING COSTS are expensed as incurred.

INTANGIBLE ASSETS are being amortized on the straight-line basis over periods ranging from 10 to 25 years. Such assets are periodically evaluated as to the recoverability of their carrying value.

INCOME TAX in the consolidated statement of income includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. The Corporation adopted the provisions of SFAS No. 109, ACCOUNTING FOR INCOME TAXES, during the year ended December 31, 1993. The Corporation files consolidated income tax returns with its subsidiaries.

EARNINGS PER SHARE have been computed based upon the weighted average common shares outstanding during each year and have been restated to give effect to a three-for-two stock split distributed to stockholders on January 25, 1993 and on October 27, 1995. Common stock equivalents, consisting of shares issuable under employee benefit plans, were not included since their effect on dilution was insignificant.

NOTE 2  
ACQUISITIONS

On January 18, 1996, the Corporation signed a definitive agreement to acquire all of the outstanding shares of Randolph County Bancorp, Inc., Winchester, Indiana. Under terms of the agreement, the Corporation will issue approximately 566,000 shares of its common stock. The transaction will be accounted for under the pooling of interests method of accounting and is subject to approval by stockholders of Randolph County Bancorp, Inc., and appropriate regulatory agencies. Although the corporation anticipates that the merger will be consummated during the second quarter of 1996, there can be no assurance that the acquisition will be completed. At December 31, 1995, Randolph County Bancorp, Inc., had total assets and stockholders' equity of \$73,333,000 and \$8,867,000, respectively.

On January 24, 1996, the Corporation signed a definitive agreement to acquire all of the outstanding shares of Union National Bancorp, Liberty, Indiana. Under terms of the agreement, the Corporation will issue approximately 943,000 shares of its common stock. The transaction will be accounted for under the pooling of interests method of accounting and is subject to approval by stockholders of Union National Bancorp and appropriate regulatory agencies. Although the Corporation anticipates that the merger will be consummated during the second quarter of 1996, there can be no assurance that the acquisition will be completed. At December 31, 1995, Union National Bancorp had total assets and stockholders' equity of \$161,078,000 and \$15,741,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Table Dollar Amounts in Thousands, Except Per Share Amounts)

NOTE 3  
 RESTRICTION ON CASH AND DUE FROM BANKS

The Banks are required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 1995, was \$10,159,000.

NOTE 4  
 INVESTMENT SECURITIES

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	-----	-----	-----	-----
Available for sale at December 31, 1995:				
U.S. Treasury . . . . .	\$ 4,531	\$ 26	\$ 3	\$ 4,554
Federal agencies . . . . .	67,518	1,299	72	68,745
State and municipal . . . . .	18,769	398	37	19,130
Mortgage and other asset-backed securities . . . . .	24,023	210	121	24,112
Corporate obligations . . . . .	26,120	264	55	26,329
Marketable equity security . . . . .	250			250
	-----	-----	-----	-----
Total available for sale . . . . .	141,211	2,197	288	143,120
Held to maturity at December 31, 1995:				
U.S. Treasury . . . . .	3,103	8	2	3,109
Federal agencies . . . . .	11,645	69	21	11,693
State and municipal . . . . .	40,013	483	57	40,439
Mortgage and other asset-backed securities . . . . .	2,953	8		2,961
Corporate obligations . . . . .	500		1	499
	-----	-----	-----	-----
Total held to maturity . . . . .	58,214	568	81	58,701
	-----	-----	-----	-----
Total investment securities . . . . .	\$199,425	\$ 2,765	\$ 369	\$201,821
	-----	-----	-----	-----
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 available for sale . . . . .	103,536	64	4,237	99,363
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 held to maturity . . . . .	77,677	261	1,416	76,522
	-----	-----	-----	-----
Total investment securities . . . . .	\$181,213	\$ 325	\$5,653	\$175,885
	-----	-----	-----	-----

The amortized cost and estimated fair value of securities held to maturity and available for sale at December 31, 1995, by contractual maturity, are shown on the following page. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(continued)



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Table Dollar Amounts in Thousands, Except Per Share Amounts)

NOTE 4  
 INVESTMENT SECURITIES (continued)

	AVAILABLE FOR SALE		HELD TO MATURITY	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Maturity distribution at December 31, 1995:				
Due in one year or less . . . . .	\$ 24,867	\$ 24,886	\$ 19,193	\$ 19,251
Due after one through five years . . . . .	82,767	84,204	32,582	32,891
Due after five through ten years . . . . .	9,554	9,918	2,866	2,978
Due after ten years . . . . .			620	620
	-----	-----	-----	-----
	117,188	119,008	55,261	55,740
Mortgage and other asset-backed securities	24,023	24,112	2,953	2,961
	-----	-----	-----	-----
Totals . . . . .	\$141,211	\$143,120	\$ 58,214	\$ 58,701
	-----	-----	-----	-----

Securities with a carrying value of approximately \$91,090,000 and \$83,411,000 were pledged at December 31, 1995 and 1994, to secure certain deposits and for other purposes as permitted or required by law.

Proceeds from sales of securities available for sale during 1995 and 1994 were \$11,696,000 and \$15,083,000. Gross gains of \$47,000 and \$167,000 and gross losses of \$113,000 and \$198,000 were realized on those sales.

Proceeds from sales of securities held to maturity during 1993 were \$5,431,000. Gross gains of \$395,000 and gross losses of \$500 were realized on those sales.

On December 28, 1995, the Corporation transferred certain securities from held to maturity to available for sale in accordance with a transition reclassification allowed by the Financial Accounting Standards Board. Such securities had a carrying value of \$4,421,000 and a fair value of \$4,418,000.

NOTE 5  
 LOANS AND ALLOWANCE

	1995	1994
	-----	-----
Loans at December 31:		
Commercial and industrial loans . . . . .	\$ 85,690	\$ 78,943
Bankers' acceptances and loans to financial institutions . . . . .	2,925	
Agricultural production financing and other loans to farmers . . . . .	5,796	5,310
Real estate loans:		
Construction . . . . .	9,913	8,126
Commercial and farmland . . . . .	66,749	64,110
Residential . . . . .	166,414	164,760
Individuals' loans for household and other personal expenditures . . . . .	79,993	78,041
Tax-exempt loans . . . . .	863	1,204
Other loans . . . . .	651	1,111
	-----	-----
Total loans . . . . .	\$ 418,994	\$ 401,605
	-----	-----

	1995	1994	1993
	-----	-----	-----
Allowance for loan losses:			
Balance, January 1 . . . . .	\$ 4,998	\$ 4,800	\$ 4,351
Provision for losses . . . . .	640	782	1,014
Recoveries on loans . . . . .	201	329	343
Loans charged off . . . . .	(882)	(913)	(908)
	-----	-----	-----
Balance, December 31 . . . . .	\$ 4,957	\$ 4,998	\$ 4,800
	-----	-----	-----

(continued)



NOTE 5  
LOANS AND ALLOWANCE (continued)

The Corporation adopted SFAS No. 114 and No. 118 ACCOUNTING BY CREDITORS FOR IMPAIRMENT OF A LOAN AND ACCOUNTING BY CREDITORS FOR IMPAIRMENT OF A LOAN - INCOME RECOGNITION AND DISCLOSURES on January 1, 1995. Impaired loans totaled \$3,122,000 at December 31, 1995. An allowance for losses at December 31, 1995, was not deemed necessary for impaired loans totaling \$1,900,000, but an allowance of \$559,000 was recorded for the remaining balance of impaired loans of \$1,222,000. The average balance of impaired loans for 1995 was \$1,682,000. Interest income and cash receipts of interest totaled \$34,000 and \$5,000 during the period in 1995 that the loans were impaired.

Nonaccruing and restructured loans totaled \$1,080,000 and \$1,406,000 at December 31, 1994 and 1993.

Additional interest income of \$39,000 for 1994 and \$39,000 for 1993 would have been recorded had income on nonaccruing and restructured loans been considered collectible and accounted for on the accrual basis under the original terms of the loans.

The Banks have entered into transactions with certain directors, executive officers, significant stockholders, and their affiliates or associates ("related parties"). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

The aggregate amount of loans, as defined, to such related parties were as shown below:

Balances, December 31, 1994 . . . . .	\$ 12,880
New loans, including renewals . . . . .	5,727
Payments, etc., including renewals. . . . .	(8,279)
	-----
Balances, December 31, 1995 . . . . .	\$ 10,328
	-----
	-----

NOTE 6  
PREMISES AND EQUIPMENT

	1995	1994
	-----	-----
Cost at December 31:		
Land . . . . .	\$ 1,850	\$ 1,324
Buildings and leasehold improvements . . . . .	9,706	9,231
Equipment. . . . .	10,328	9,310
	-----	-----
Total cost . . . . .	21,884	19,865
Accumulated depreciation . . . . .	(11,408)	(10,320)
	-----	-----
Net. . . . .	\$ 10,476	\$ 9,545
	-----	-----
	-----	-----

The Corporation is committed under various noncancelable lease contracts for certain subsidiary office facilities. Total lease expense for 1995, 1994 and 1993 was \$127,000, \$113,000, and \$110,000, respectively. The future minimum rental commitments required under the operating leases in effect at December 31, 1995, expiring at various dates through the year 2016, follow on the right for the years ending December 31:

1996 . . . . .	\$ 106
1997 . . . . .	255
1998 . . . . .	85
1999 . . . . .	72
2000 . . . . .	63
After 2000 . . . . .	318
	-----
Total future minimum obligations . . . . .	\$ 899
	-----
	-----

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Table Dollar Amounts in Thousands, Except Per Share Amounts)

NOTE 7  
DEPOSITS

	1995	1994
	-----	-----
Deposits at December 31:		
Noninterest-bearing . . . . .	\$ 99,432	\$ 99,667
Interest-bearing demand . . . . .	105,957	91,806
Savings deposits . . . . .	137,134	144,447
Certificates and other time deposits of \$100,000 or more . . . . .	49,216	33,622
Other certificates and time deposits . . . . .	196,417	160,288
	-----	-----
Total deposits. . . . .	\$ 588,156	\$529,830
	-----	-----

Certificates maturing in years ending December 31:

1996 . . . . .	\$ 155,357
1997 . . . . .	41,862
1998 . . . . .	27,939
1999 . . . . .	15,132
2000 . . . . .	5,273
After 2000 . . . . .	70
	-----
	\$ 245,633
	-----
	-----

NOTE 8  
SHORT-TERM BORROWINGS

	1995	1994
	-----	-----
Short-term borrowings at December 31:		
Federal funds purchased . . . . .	\$ 100	\$12,198
Securities sold under repurchase agreements . . . . .	27,293	17,776
U.S. Treasury demand notes. . . . .	6,582	9,215
	-----	-----
Total short-term borrowings . . . . .	\$33,975	\$39,189
	-----	-----
	-----	-----

Securities sold under agreements to repurchase consist of obligations of the Banks to other parties. The obligations are secured by U.S. Treasury and Federal agency obligations and generally mature within one to 185 days from the transaction date. The following table summarizes certain information on these repurchase agreements.

As of and for the Year Ended December 31:

	1995	1994
	-----	-----
Book value . . . . .	\$ 27,293	\$ 17,776
Collateral book value. . . . .	40,471	40,664
Collateral market value. . . . .	40,748	40,539
Average balance of agreements during year. . . . .	33,632	23,389
Highest month-end balance during year. . . . .	54,670	29,115
Interest payable at end of year. . . . .	87	41
Weighted average interest rate at end of year. . . . .	5.29%	4.86%

NOTE 9  
FEDERAL HOME LOAN BANK ADVANCE

At December 31, 1995, the Corporation had a \$1,000,000 Federal Home Bank advance maturing June 20, 1996, with an interest rate of 5.79 per cent.

The advance is secured by investment securities with a carrying value of \$1,561,000. The advance is subject to restrictions or penalties in the event of prepayment.

NOTE 10  
LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheet. The loans are serviced primarily for the Federal Home Loan Mortgage Corporation and the unpaid balances totaled \$3,546,000 at December 31, 1995.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Table Dollar Amounts in Thousands, Except Per Share Amounts)

NOTE 11  
 INCOME TAX

	1995	1994	1993
	-----	-----	-----
Income tax expense, for the year ended December 31:			
Currently payable:			
Federal . . . . .	\$ 3,879	\$ 3,845	\$ 3,576
State . . . . .	1,229	1,190	1,135
Deferred:			
Federal . . . . .	267	(110)	(304)
State . . . . .	73	(18)	(11)
	-----	-----	-----
Total income tax expense. . . . .	\$ 5,448	\$ 4,907	\$ 4,396
	-----	-----	-----
Reconciliation of federal statutory to actual tax expense (benefit):			
Federal statutory income tax at 34% . . . . .	\$ 5,204	\$ 4,782	\$ 4,375
Tax exempt interest . . . . .	(727)	(759)	(759)
Effect of state income taxes . . . . .	859	774	742
Other . . . . .	112	110	38
	-----	-----	-----
Actual tax expense. . . . .	\$ 5,448	\$ 4,907	\$ 4,396
	-----	-----	-----

Tax expense (benefit) applicable to security gains and losses for the years ended December 31, 1995, 1994, and 1993, was (\$22,600), (\$12,000) and \$156,000, respectively.

The components of the deferred tax asset included in other assets are as shown in the table below.

No valuation allowance at December 31, 1995, was considered necessary.

During 1993, the Corporation adopted SFAS No. 109, ACCOUNTING FOR INCOME TAXES. As a result, the beginning deferred tax asset was increased by \$227,329, which is reported as the cumulative effect of a change in accounting method.

	1995	1994
	-----	-----
Deferred Tax Asset at December 31:		
Differences in depreciation methods. . . . .	\$ (701)	\$ (595)
Differences in accounting for loans and securities . . . . .	(58)	(44)
Differences in accounting for loan fees. . . . .	368	532
Differences in accounting for loan losses. . . . .	2,107	2,124
Deferred compensation. . . . .	280	275
Differences in accounting for pensions and other employee benefits. . . . .	85	147
Net unrealized (gain) loss on securities available for sale . . . . .	(756)	1,653
State income tax . . . . .	(134)	(159)
Other. . . . .	(2)	5
	-----	-----
Total. . . . .	\$ 1,189	\$ 3,938
	-----	-----
Assets. . . . .	\$ 2,840	\$ 4,736
Liabilities	(1,651)	(798)
	-----	-----
Total . . . . .	\$ 1,189	\$ 3,938
	-----	-----

NOTE 12  
 COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Banks' exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Banks use the same credit policies in making such commitments as they do for instruments that are included in the consolidated balance sheet.

Financial instruments whose contract amount represents credit risk as of December 31, were as follows:

	1995 -----	1994 -----
Commitments to extend credit . . . . .	\$120,649	\$87,244
Standby letters of credit . . . . .	2,820	2,649

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Banks evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Banks upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party.

The Corporation and Banks are also subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Corporation.

NOTE 13  
 STOCKHOLDERS' EQUITY

National and state banking laws restrict the maximum amount of dividends that a bank may pay in any calendar year. National banks are limited to the bank's retained net income (as defined by the Comptroller of the Currency) for that year and the two preceding years. State banks are limited to retained earnings, as defined. The amount at December 31, 1995, available for 1996 dividends to the Corporation is \$15,923,000. As a practical matter, subsidiaries restrict dividends to a lesser amount because of the need to maintain an adequate capital structure.

Total stockholders' equity for all subsidiaries at December 31, 1995, was \$78,940,000, of which \$63,017,000 was restricted from dividend distribution to the Corporation.

The Corporation has a Dividend Reinvestment and Stock Purchase Plan, enabling stockholders to elect to have their cash dividends on all shares held automatically reinvested in additional shares of the Corporation's common stock. In addition, stockholders may elect to make optional cash payments up to an aggregate of \$2,500 per quarter for the purchase of additional shares of common stock. The stock is credited to participant accounts at fair market value. Dividends are reinvested on a quarterly basis. At December 31, 1995, 386,046 shares of common stock were reserved for purchase under the plan.

On December 1, 1992, the Board of Directors of the Corporation declared a three-for-two stock split on its common shares and approved an increase in the authorized common stock shares to 20,000,000 shares. The new shares were distributed on January 25, 1993, to holders of record on January 18, 1993. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Table Dollar Amounts in Thousands, Except Per Share Amounts)

NOTE 14  
 EMPLOYEE BENEFIT PLANS

The Corporation's defined-benefit pension plan covers substantially all of the Banks' employees. The benefits are based primarily on years of service and employees' pay near retirement. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Pension expense was \$201,000 for 1995, \$193,000 for 1994 and \$56,000 for 1993.

The following table sets forth the plan's funded status and amounts recognized in the consolidated balance sheet at December 31:

	1995	1994
	-----	-----
Actuarial present value of:		
Accumulated benefit obligation including vested benefits of \$8,997 and \$7,595 . . . . .	\$ 9,181	\$ 7,720
	-----	-----
Projected benefit obligation for service rendered to date . . . . .	\$(10,971)	\$(9,189)
Plan assets at fair value, primarily interest-bearing deposits and corporate bonds and securities. . . . .	12,049	9,740
	-----	-----
Plan assets in excess of projected benefit obligation . . . . .	1,078	551
Unrecognized net loss from experience different than that assumed . . . . .	( 569)	( 121)
Unrecognized prior service cost . . . . .	( 71)	( 52)
Unrecognized net asset at January 1, 1987, being recognized over 15 years. . . . .	( 650)	( 755)
	-----	-----
Accrued pension cost included in the balance sheet. . . . .	\$ ( 212)	\$( 377)
	-----	-----

	1995	1994	1993
	-----	-----	-----
Pension expense includes the following components:			
Service cost benefits earned during the year . . . . .	\$ 405	\$ 483	\$ 389
Interest cost on projected benefit obligation . . . . .	740	678	619
Actual return on plan assets. . . . .	(2,387)	( 124)	( 1,072)
Net amortization and deferral . . . . .	1,443	( 844)	120
	-----	-----	-----
	\$ 201	\$ 193	\$ 56
	-----	-----	-----

	1995	1994	1993
	-----	-----	-----
Assumptions used in the accounting as of December 31 were:			
Discount rate . . . . .	7.50%	8.25%	6.85%
Rate of increase in compensation. . . . .	4.50%	4.50%	4.50%
Expected long-term rate of return on assets . . . . .	8.75%	8.75%	8.75%

(continued)



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Table Dollar Amounts in Thousands, Except Per Share Amounts)

NOTE 14  
 EMPLOYEE BENEFIT PLANS (continued)

In 1989, stockholders approved the 1989 Stock Option Plan, reserving 112,500 shares of Corporation common stock for the granting of options to certain employees. The exercise price of the shares may not be less than the fair market value of the shares upon grant of the option. Options become 100 per cent vested when granted and are fully exercisable generally six months after the date of grant, for a period of ten years. There were no shares available for grant at December 31, 1995.

On March 31, 1994, stockholders approved the 1994 Stock Option Plan, reserving 315,000 shares of Corporation common stock for the granting of options to certain employees and non-employee directors. The exercise price of the shares may not be less than the fair market value of the shares upon the grant of the option. Options become 100 per cent vested when granted and are fully exercisable generally six months after the date of the grant, for a period of ten years. There were 198,075 shares available for grant at December 31, 1995.

	1995	1994	1993
	-----	-----	-----
Shares under option after restatement for stock splits:			
Outstanding at beginning of year . . . . .	179,807	127,345	113,400
Adjustment for fractional shares . . . . .			(6)
Granted during the year . . . . .	57,150	59,775	30,150
Expired during the year . . . . .			(2,250)
Exercised during the year . . . . .	(13,898)	(7,313)	(13,949)
Outstanding at end of year . . . . .	223,059	179,807	127,345
Exercisable at end of year . . . . .	165,909	120,032	97,646
Average option price at end of year . . . . .	\$ 18.07	\$ 15.81	\$ 13.72
Price of options exercised			
Low . . . . .	\$ 9.11	\$ 10.78	\$ 9.11
High . . . . .	\$ 19.42	\$ 18.33	\$ 17.22

In 1989, the stockholders also approved the Employee Stock Purchase Plan, enabling eligible employees to purchase the Corporation's common stock. The price of the stock to be paid by the employees is determined by the Corporation's compensation committee, but may not be less than 85 per cent of the lesser of the fair market value of the Corporation's common stock at the beginning or at the end of the offering period. Common stock purchases are made annually and are paid through advance payroll deductions of up to 20 per cent of eligible compensation.

Participants under the plan purchased 11,175 shares (prior to stock split) in 1995 at \$24.7563 per share. The fair market value per share on the purchase date was \$34.125.

On March 31, 1994, the stockholders approved the 1994 Employee Stock Purchase Plan. A total of 168,750 shares of the Corporation's common stock are reserved for issuance pursuant to the plan. The terms of the plan are similar to the 1989 Employee Stock Purchase Plan.

At December 31, 1995, 136,173 shares of Corporation common stock were reserved for purchase under the plan, and \$152,725 has been deducted from compensation, plus interest, toward the purchase of shares after June 30, 1996, the end of the annual offering period.

The Banks have a retirement savings 401(k) plan in which substantially all employees may participate. The Banks match employees' contributions at the rate of 25 per cent for the first 5 per cent of base salary contributed by participants. The Banks' expense for the plan was \$68,000 for 1995, \$61,000 for 1994 and \$52,000 for 1993.

SFAS No. 123, STOCK-BASED COMPENSATION, is effective for the Corporation in 1996. This statement establishes a fair value based method of accounting for stock-based compensation plans. The Corporation has not yet determined the impact of adopting SFAS No. 123 on net income or financial position in the year of adoption.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Table Dollar Amounts in Thousands, Except Per Share Amounts)

NOTE 15  
FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents--The fair value of cash and cash equivalents approximates carrying value.

Interest-Bearing Time Deposits--The fair value of interest-bearing time deposits approximates carrying value.

Securities--Fair values are based on quoted market prices.

Mortgage Loans Held for Sale--The fair value of mortgages held for sale approximates carrying values.

Loans--For both short-term loans and variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value for other loans, are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Interest Receivable/Payable--The fair values of interest receivable/payable approximate carrying values.

Federal Reserve and Federal Home Loan Bank Stock--The fair value of FRB and FHLB stock is based on the price at which it may be resold to the FRB and FHLB.

Deposits--The fair values of noninterest-bearing demand accounts and interest-bearing demand accounts are equal to the amount payable on demand at the balance sheet date. The carrying amounts for variable rate, fixed-term certificates of deposit approximate their fair values at the balance sheet date. Fair values for fixed-rate certificates of deposit and other time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on such time deposits.

Federal Funds Purchased, Securities Sold Under Repurchase Agreements and U.S. Treasury Demand Notes--These financial instruments are short-term borrowing arrangements. The rates at December 31, 1995 and 1994, approximate market rates, thus the fair value approximates carrying value.

Federal Home Loan Bank Advance--The fair value of the Federal Home Loan Bank advance approximates carrying value.

Off-Balance Sheet Standby Letters of Credit--The fair value of standby letters of credit are based upon fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Corporation's financial instruments are as follows:

	1995		1994	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<b>ASSETS AT DECEMBER 31:</b>				
Cash and cash equivalents . . . . .	\$ 68,932	\$ 68,932	\$ 46,359	\$ 46,359
Interest-bearing time deposits . . . . .	155	155	23	23
Investment securities available for sale . . . . .	143,120	143,120	99,363	99,363
Investment securities held to maturity . . . . .	58,214	58,701	77,677	76,522
Mortgage loans held for sale . . . . .	736	736		
Loans . . . . .	418,994	420,424	401,605	400,174
Federal Reserve and Federal Home Loan Bank stock . . . . .	1,892	1,892	1,879	1,879
Interest receivable . . . . .	6,187	6,187	5,627	5,627
<b>LIABILITIES AT DECEMBER 31:</b>				
Deposits . . . . .	588,156	590,015	529,830	529,191
Short-term borrowings:				
Federal funds purchased . . . . .	100	100	12,198	12,198
Securities sold under repurchase agreements . . . . .	27,293	27,293	17,776	17,776
U.S. Treasury demand notes . . . . .	6,582	6,582	9,215	9,215
Federal Home Loan Bank advance . . . . .	1,000	1,000		
Interest payable . . . . .	1,866	1,866	1,320	1,320
Off-balance sheet standby letters of credit . . . . .		56		53

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Table Dollar Amounts in Thousands, Except Per Share Amounts)

NOTE 16  
CONDENSED FINANCIAL INFORMATION (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations, and cash flows of the Corporation:

CONDENSED BALANCE SHEET

	DECEMBER 31	
	1995	1994
<b>ASSETS</b>		
Cash . . . . .	\$ 591	\$ 137
Investment security available for sale . . . . .	250	
Investment in subsidiaries . . . . .	78,877	70,089
Goodwill . . . . .	673	711
Other assets . . . . .	287	233
Total assets . . . . .	\$ 80,678	\$ 71,170
<b>LIABILITIES</b>		
Other liabilities . . . . .	\$ 205	\$ 152
Total liabilities . . . . .	205	152
STOCKHOLDERS' EQUITY . . . . .	\$ 80,473	71,018
Total liabilities and stockholders' equity . . . . .	\$ 80,678	\$ 71,170

CONDENSED STATEMENT OF INCOME

	YEAR ENDED DECEMBER 31		
	1995	1994	1993
<b>INCOME</b>			
Dividends from subsidiaries . . . . .	\$ 4,857	\$ 4,335	\$ 3,571
Total income . . . . .	4,857	4,335	3,571
<b>EXPENSES</b>			
Amortization of core deposit intangibles, goodwill and fair value adjustments . . . . .	38	32	19
Other expenses . . . . .	153	170	100
Total expenses . . . . .	191	202	119
Income before income tax, equity in undistributed income of subsidiaries and cumulative effect of change in accounting method . . . . .	4,666	4,133	3,452
Income tax benefit . . . . .	(76)	( 73)	( 40)
Income before equity in undistributed income of subsidiaries and cumulative effect of change in accounting method . . . . .	4,742	4,206	3,492
Equity in undistributed income of subsidiaries . . . . .	5,116	4,952	5,225
Income before cumulative effect of change in accounting method . . . . .	9,858	9,158	8,717
Cumulative effect of change in method of accounting for income taxes . . . . .			( 18)
Net income . . . . .	\$ 9,858	\$ 9,158	\$ 8,699

(continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Table Dollar Amounts In Thousands, Except Per Share Amounts)

NOTE 16  
CONDENSED FINANCIAL INFORMATION (Parent Company Only, continued)

CONDENSED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	1995	1994	1993
<b>OPERATING ACTIVITIES:</b>			
Net income . . . . .	\$ 9,858	\$ 9,158	\$ 8,699
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization . . . . .	38	32	19
Equity in undistributed income of subsidiaries . . . . .	(5,116)	( 4,952)	( 5,225)
Net change in:			
Other assets . . . . .	( 54)	( 48)	( 64)
Other liabilities . . . . .	53	29	123
Net cash provided by operating activities . . . . .	4,779	4,219	3,552
<b>INVESTING ACTIVITY:</b>			
Purchase of security available for sale . . . . .	( 250)		
Net cash used by investing activities . . . . .	( 250)		
<b>FINANCING ACTIVITIES:</b>			
Cash dividends . . . . .	( 3,908)	( 3,583)	(3,213)
Stock issued under employee benefit plans . . . . .	278	250	247
Stock issued under dividend reinvestment and stock purchase plan . . . . .	456	357	287
Stock options exercised . . . . .	192	108	154
Stock redeemed . . . . .	( 1,089)	( 1,556)	(1,301)
Cash paid in lieu of issuing fractional shares . . . . .	( 4)		( 4)
Net cash used by financing activities . . . . .	( 4,075)	( 4,424)	(3,830)
Net increase (decrease) in cash on deposit	454	( 205)	( 278)
Cash on deposit, beginning of year . . . . .	137	342	620
Cash on deposit, end of year . . . . .	\$ 591	\$ 137	\$ 342

NOTE 17  
QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following table sets forth certain quarterly results for the years ended December 31, 1995 and 1994:

QUARTER ENDED	INTEREST INCOME	INTEREST EXPENSE	NET INTEREST INCOME	PROVISION FOR LOAN LOSSES	NET INCOME	AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE
March, 1995 . . . . .	\$ 11,588	\$ 4,661	\$ 6,927	\$ 160	\$ 2,391	5,051,232	\$ .47
June, 1995 . . . . .	12,435	5,435	7,000	160	2,529	5,055,723	.50
September, 1995 . . . . .	12,796	5,840	6,956	160	2,414	5,062,748	.48
December, 1995 . . . . .	13,145	6,147	6,998	160	2,524	5,050,974	.50
	\$ 49,964	\$ 22,083	\$ 27,881	\$ 640	\$ 9,858	5,055,169	\$ 1.95
March, 1994 . . . . .	\$ 10,211	\$ 3,768	\$ 6,443	\$ 193	\$ 2,246	5,082,999	\$ .44
June, 1994 . . . . .	10,679	3,929	6,750	199	2,360	5,072,202	.47
September, 1994 . . . . .	11,106	4,281	6,825	201	2,227	5,086,058	.44
December, 1994 . . . . .	11,118	4,153	6,965	189	2,325	5,067,968	.45
	\$ 43,114	\$ 16,131	\$ 26,983	\$ 782	\$ 9,158	5,077,307	\$ 1.80

MAP: FIRST MERCHANTS CORPORATION MARKET AREA

This graphic is a map of Indiana showing the market area for First Merchants Corporation ("Corporation"). The map illustrates the location of Delaware, Madison and Henry counties, Indiana. The map identifies the communities with Corporation offices. The following table summarizes the Corporation's office locations:

LOCATION	COUNTY
Muncie	Delaware
Albany	Delaware
Delaville	Delaware
Eaton	Delaware
Pendleton	Madison
Edgewood	Madison
Ingalls	Madison
Lapel	Madison
Markleville	Madison
Middletown	Henry
Bulphur Springs	Henry
Mooreland	Henry

Bar chart: RETURN ON AVERAGE ASSETS

A bar graph with the following plot points for the respective years.

	RETURN ON AVERAGE ASSETS (per cent)		
	1993	1994	1995
Return on Average Assets	1.39%	1.44%	1.48%

A narrative discussion of this data is provided in the Management's Discussion & Analysis, under the caption "Results of Operations."

Bar chart: RETURN ON AVERAGE EQUITY

A bar graph with the following plot points for the respective years.

	RETURN ON AVERAGE EQUITY (per cent)		
	1993	1994	1995
Return on Average Equity	13.01%	13.06%	12.97%

A narrative discussion of the data is provided in the Management's Discussion & Analysis, under the caption "Results of Operations."

Bar chart: NET LOAN LOSSES

A bar graph with the following plot points for the respective years.

	NET LOAN LOSSES (as a per cent of average loans)		
	1993	1994	1995
First Merchants Corporation	.16%	.15%	.16%
Peer Group	.49%	.25%	NA

A narrative discussion of this data is provided in the Management's Discussion & Analysis, under the caption "Asset Quality/Provision for Loan Losses."



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S FORM 10-K FOR THE YEAR-TO-DATE, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH REPORT.

1,000  
U.S. DOLLARS

YEAR		
	DEC-31-1995	
	JAN-01-1995	
	DEC-31-1995	
	1	31,432
	155	
	37,500	
	0	
143,120	58,214	
	58,701	
		418,994
		4,957
	707,859	
		588,156
		33,975
	5,255	
		0
	0	
		0
		632
707,859		79,841
	37,806	
	11,099	
	1,059	
	49,964	
	19,565	
	22,083	
	27,881	
		640
	(66)	
	18,842	
	15,306	
9,858		
	0	
		0
	9,858	
	1.95	
	1.95	
	4.64	
		133
		863
	625	
	3,122	
	4,998	
		882
		201
	4,957	
	3,999	
	0	
958		