

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, 1993      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 \$88,979,607 as of March 9,  
1994.

As of March 9, 1994, there were outstanding 3,386,324 common shares,  
without par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Documents -----	Part of Form 10-K Into Which Incorporated -----
1993 Annual Report to Stockholders Definitive Proxy Statement for Annual Meeting of Shareholders to be held March 31, 1994	Part II (Items 5 through 8)  Part III (Items 10 through 13)
EXHIBIT INDEX: Pages 23	Total Pages 124

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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.

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, 1993, the Corporation and its subsidiaries had 371 full-time equivalent employees.

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 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. 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.

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SUPERVISION AND REGULATION (CONTINUED)

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 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 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.

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.

	1993			1992			1991		
	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 . . . . .	\$ 15,653	\$ 454	2.9%	\$ 13,949	\$ 475	3.4%	\$ 7,234	\$ 386	5.3%
Interest-bearing deposit . . . . .	648	35	5.4	1,977	124	6.3	1,673	139	8.3
Investment securities:									
Taxable . . . . .	163,501	10,292	6.3	180,246	13,359	7.4	177,066	14,747	8.3
Tax-exempt . . . . .	50,179	3,633	7.2	40,545	3,266	8.1	39,550	3,592	9.1
Total investment securities . . . . .	213,680	13,925	6.5	220,791	16,625	7.5	216,616	18,339	8.5
<b>Loans:*</b>									
Commercial . . . . .	148,657	10,919	7.3	136,602	10,790	7.9	127,139	12,541	9.9
Bankers' acceptances and commercial paper purchased . . . . .	112	4	3.6	1,016	38	3.7	3,364	252	7.5
Real estate mortgage . . . . .	132,932	11,364	8.5	121,677	11,981	9.8	106,412	10,829	10.2
Installment . . . . .	73,226	6,418	8.8	67,559	6,827	10.1	60,576	7,089	11.7
Tax-exempt loans . . . . .	2,101	185	8.8	2,896	235	8.1	2,785	291	10.4
Total loans . . . . .	357,028	28,890	8.1	329,750	29,871	9.1	300,276	31,002	10.3
Total earning assets . . . . .	587,009	43,304	7.4	566,467	47,095	8.3	525,799	49,866	9.5
Allowance for loan losses . . . . .	(4,584)			(4,253)			(3,550)		
Cash and due from banks . . . . .	23,373			22,067			20,869		
Premises and equipment . . . . .	8,634			7,206			6,383		
Other assets . . . . .	11,966			11,580			10,911		
Total assets . . . . .	\$626,398			\$603,067			\$560,412		
<b>Liabilities:</b>									
Interest-bearing deposits:									
NOW accounts . . . . .	79,106	1,811	2.3	70,068	2,189	3.1	59,057	2,636	4.5
Money market deposit accounts . . . . .	111,136	3,112	2.8	104,855	3,795	3.6	86,943	4,695	5.4
Savings deposits . . . . .	51,697	1,414	2.7	46,001	1,654	3.6	33,682	1,700	5.0
Certificates and other time deposits . . . . .	206,833	9,094	4.4	220,328	11,675	5.3	207,807	13,972	6.7
Total interest-bearing deposits . . . . .	448,772	15,431	3.4	441,252	19,313	4.4	387,489	23,003	5.9
Short-term borrowings . . . . .	35,317	1,067	3.0	35,796	1,382	3.9	59,878	3,586	6.0
Total interest-bearing liabilities . . . . .	484,089	16,498	3.4	477,048	20,695	4.3	447,367	26,589	5.9
Noninterest-bearing deposits . . . . .	69,054			60,274			53,813		
Other liabilities . . . . .	6,368			4,499			4,759		
Total liabilities . . . . .	559,511			541,821			505,939		
Stockholders' equity . . . . .	66,887			61,246			54,473		
Total liabilities and stockholders' equity . . . . .	\$626,398	16,498	2.8**	\$603,067	20,695	3.7**	\$560,412	26,589	5.1**
Net interest income . . . . .		\$26,806	4.6		\$26,400	4.7		\$23,277	4.4
Adjustment to convert tax exempt investment securities to fully taxable equivalent basis, using marginal rate of 34% . . . . .		\$ 1,298			\$ 1,190			\$ 1,320	

\*Nonaccruing loans have been included in the average balances.  
\*\*Total interest expense divided by total earning assets

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 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.

	1993 Compared to 1992 Increase (Decrease) Due To			1992 Compared to 1991 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
	----- (Dollars in Thousands on Fully Taxable Equivalent Basis)					
Interest income:						
Federal funds sold . . . . .	\$ 54	\$ (75)	\$ (21)	\$ 262	\$ (173)	\$ 89
Interest-bearing deposits . . . . .	(73)	(16)	(89)	22	(37)	(15)
Investment securities . . . . .	(525)	(2,175)	(2,700)	369	(2,083)	(1,714)
Loans . . . . .	2,411	(3,392)	(981)	2,778	(3,909)	(1,131)
Totals . . . . .	1,867	(5,658)	(3,791)	3,431	(6,202)	(2,771)
Interest expense:						
NOW accounts . . . . .	248	(626)	(378)	452	(899)	(447)
Money market deposit accounts . . . . .	211	(894)	(683)	852	(1,752)	(900)
Savings deposits . . . . .	195	(435)	(240)	508	(554)	(46)
Certificates and other time deposits . . . . .	(684)	(1,897)	(2,581)	788	(3,085)	(2,297)
Short-term borrowings . . . . .	(18)	(297)	(315)	(1,179)	(1,025)	(2,204)
Totals . . . . .	(48)	(4,149)	(4,197)	1,421	(7,315)	(5,894)
Change in net interest income (fully taxable equivalent basis) . . . . .	\$1,915	\$(1,509)	406	\$2,010	\$1,113	3,123
Tax equivalent adjustment using marginal rate of 34% . . . . .			(108)			130
Change in net interest income . . . . .			\$ 298			\$3,253

STATISTICAL DATA (Continued)

INVESTMENT PORTFOLIO

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Market Value
(Dollars in Thousands)				
Securities 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
Federal Reserve stock . . . .	307			307
Federal Home Loan Bank stock .	1,572			1,572
Corporate obligations . . . . .	36,959	581	87	37,453
Totals . . . . .	\$ 206,243	\$ 3,356	\$ 298	\$ 209,301

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Market Value
(Dollars in Thousands)				
Securities at December 31, 1992:				
U.S. Treasury . . . . .	\$ 53,120	\$ 1,348	\$ 105	\$ 54,363
Federal agencies . . . . .	66,778	1,544	85	68,237
State and municipal . . . . .	33,203	911	76	34,038
Mortgage and other asset-backed securities . . .	16,073	508	2	16,579
Federal Reserve stock . . . .	307			307
Corporate obligations . . . . .	26,804	710	36	27,478
Totals . . . . .	\$ 196,285	\$ 5,021	\$ 304	\$ 201,002

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Market Value
(Dollars in Thousands)				
Securities at December 31, 1991:				
U.S. Treasury . . . . .	\$ 52,851	\$ 2,114		\$ 54,965
Federal agencies . . . . .	70,081	2,877	\$ 16	72,942
State and municipal . . . . .	30,816	839		31,655
Mortgage and other asset-backed securities . . .	27,916	1,186	10	29,092
Federal Reserve stock . . . .	307			307
Corporate obligations . . . . .	27,319	819	9	28,129
Totals . . . . .	\$ 209,290	\$ 7,835	\$ 35	\$ 217,090

STATISTICAL DATA (Continued)

The maturity distribution and average yields for the investment securities portfolio at December 31, 1993 were:

	Within 1 Year		1-5 Years		5-10 Years		Over 10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*	Amount	Yield*
(Dollars in Thousands)								
U.S. Treasury . . . . .	\$25,216	5.66%	\$20,181	5.75%				
Federal agencies . . . . .	8,959	7.05	41,993	5.33	\$ 2,500	6.34%		
State and Municipal . . . . .	6,257	7.16	27,484	7.22	10,197	7.49	\$ 928	6.94%
Mortgage and other asset-backed securities . . . . .								
Federal Reserve stock . . . . .								
Federal Home Loan Bank stock . . . . .								
Corporate obligations . . . . .	5,518	6.81	30,552	6.09	549	5.20	340	7.98
Totals . . . . .	\$45,950	6.27%	\$120,210	6.03%	\$13,246	7.18%	\$ 1,268	7.22%

	Mortgage and Other Asset-Backed Securities		Federal Reserve Stock		Federal Home Loan Bank Stock		Total Securities	
	Amount	Yield*	Amount	Yield*	Amount	Yield*	Amount	Yield*
(Dollars in Thousands)								
U.S. Treasury . . . . .							\$45,397	5.70%
Federal agencies . . . . .							53,452	5.67
State and Municipal . . . . .							44,866	7.27
Mortgage and other asset-backed securities . . . . .	\$23,690	6.24%					23,690	6.24
Federal Reserve stock . . . . .			\$ 307	6.00%			307	6.00
Federal Home Loan Bank stock . . . . .					1,572	7.00%	1,572	7.00
Corporate obligations . . . . .							36,959	6.20
Totals . . . . .	\$23,690	6.24%	\$ 307	6.00%	\$ 1,572	7.00%	\$206,243	6.19%

\*Interest yields on state and municipal securities are presented on a fully taxable equivalent basis using a 34% rate.



STATISTICAL DATA (Continued)

LOAN PORTFOLIO

TYPES OF LOANS

The loan portfolio at the dates indicated is presented below:

	1993	1992	1991	1990	1989
	----	----	----	----	----
	(Dollars in Thousands)				
Loans at December 31:					
Commercial and industrial loans . . . . .	\$ 76,760	\$ 70,959	\$ 76,245	\$ 70,254	\$ 74,391
Bankers acceptances and loans to financial institutions . . . . .	3,000	9,496	2,092	9,927	4,476
Agricultural production financing and other loans to farmers . . . . .	5,591	6,240	6,887	5,449	6,874
Real estate loans:					
Construction . . . . .	8,127	2,619	3,191	3,512	2,248
Commercial and farmland . . . . .	58,235	52,402	51,323	41,789	37,618
Residential . . . . .	150,572	140,526	120,281	101,993	85,706
Individuals' loans for household and other personal expenditures . . . . .	70,347	60,625	58,000	47,897	51,291
Tax-exempt loans . . . . .	1,474	2,402	2,309	2,938	3,819
Other loans . . . . .	2,766	5,039	3,054	4,028	3,659
	-----	-----	-----	-----	-----
Total loans . . . . .	\$376,872	\$350,308	\$323,382	\$287,787	\$270,082
	-----	-----	-----	-----	-----

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, 1993. Also presented are the amounts due after one year classified according to the sensitivity to changes in interest rates.

	Maturing			
	Within 1 Year	1-5 Years	Over 5 Years	Total
	-----	-----	-----	-----
	(Dollars in Thousands)			
Commercial and industrial loans . . . . .	\$ 39,602	\$ 15,146	\$ 22,012	\$ 76,760
Banker acceptances and loans to financial institutions . . . . .	3,000			3,000
Agricultural production financing and other loans to farmers . . . . .	3,990	895	706	5,591
Real estate - Construction . . . . .	5,672	26	2,429	8,127
Tax-exempt loans . . . . .	328	477	669	1,474
Other loans . . . . .	2,033	67	666	2,766
	-----	-----	-----	-----
Totals . . . . .	\$ 54,625	\$ 16,611	\$ 26,482	\$ 97,718
	-----	-----	-----	-----

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 STATISTICAL DATA (Continued)

	Maturing	
	1-5 Years	Over 5 Years
(Dollars in Thousands)		
Loans maturing after one year with:		
Fixed rates . . . . .	\$ 3,787	\$ 4,036
Variable rate . . . . .	12,824	22,446
Totals . . . . .	\$ 16,611	\$ 26,482

RISK ELEMENTS

	December 31				
	1993	1992	1991	1990	1989
(Dollars in Thousands)					
Nonaccruing loans . . . . .	\$ 527	\$ 493	\$1,434	\$1,178	\$1,687
Loans contractually past due 90 days or more other than nonaccruing . . . . .	616	949	1,356	1,972	2,474
Restructured loans . . . . .	879	548	828	864	594

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 \$13,154 for the year ended December 31, 1993, was recognized on the nonaccruing and restructured loans listed in the table above, whereas interest income of \$52,198 would have been recognized under their original loan terms.

Potential problem loans:

Management has identified certain other loans totaling \$4,760,200 as of December 31, 1993, not included in the risk element 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.

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 STATISTICAL DATA (Continued)

SUMMARY OF LOAN LOSS EXPERIENCE

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

	1993	1992	1991	1990	1989
	----	----	----	----	----
	(Dollars in Thousands)				
Allowance for loan losses:					
Balance at January 1 . . . . .	\$ 4,351	\$ 3,867	\$ 3,254	\$ 2,915	\$ 2,739
Addition resulting from acquisition . . . . .	-----	-----	252	-----	-----
Chargeoffs:					
Commercial . . . . .	391	588	806	614	914
Real estate mortgage . . . . .	129	100	41	46	
Installment . . . . .	388	552	511	590	383
Total chargeoffs . . . . .	908	1,240	1,358	1,250	1,297
Recoveries:					
Commercial . . . . .	240	215	227	195	255
Real estate mortgage . . . . .	5	38	7	1	
Installment . . . . .	98	114	84	98	63
Total recoveries . . . . .	343	367	318	294	318
Net chargeoffs . . . . .	565	873	1,040	956	979
Provisions for loan losses . . . . .	1,014	1,357	1,401	1,295	1,155
Balance at December 31 . . . . .	\$ 4,800	\$ 4,351	\$ 3,867	\$ 3,254	\$ 2,915
Ratio of net chargeoffs during the period to average loans outstanding during the period . .	.16%	.26%	.35%	.35%	.37%

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 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:

	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		1990	
	Amount	Per Cent	Amount	Per Cent
	----- (Dollars in Thousands) -----			
Balance at December 31:				
Commercial, financial and agricultural . . . . .	\$ 2,127	27.3%	\$ 1,789	31.2%
Real estate - construction . . . . .		1.0		1.2
Real estate - mortgage . . . . .	193	53.1	163	50.0
Installment . . . . .	1,547	17.9	1,302	16.6
Tax-exempt loans . . . . .		0.7		1.0
Unallocated . . . . .		N/A		N/A
Totals . . . . .	\$ 3,867	100.0%	\$ 3,254	100.0%

	1989	
	Amount	Per Cent
	----- (Dollars in Thousands) -----	
Balance at December 31:		
Commercial, financial and agricultural . . . . .	\$ 1,603	33.1%
Real estate - construction . . . . .		.8
Real estate - mortgage . . . . .	146	45.7
Installment . . . . .	1,166	19.0
Tax-exempt loans . . . . .		1.4
Unallocated . . . . .		N/A
Totals . . . . .	\$ 2,915	100.0%

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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.

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 STATISTICAL DATA (Continued)

DEPOSITS

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

	1993		1992		1991	
	Amount	Rate	Amount	Rate	Amount	Rate
			(Dollars in Thousands)			
Balance at December 31:						
Noninterest bearing deposits . . . . .	\$69,054		\$ 60,274		\$53,813	
NOW accounts . . . . .	79,106	2.3%	70,068	3.1%	59,057	4.5%
Money market deposit accounts . . . . .	111,136	2.8	104,855	3.6	86,943	5.4
Savings deposits . . . . .	51,697	2.7	46,001	3.6	33,682	5.0
Certificates of deposit and other time deposits . . . . .	206,833	4.4	220,328	5.3	207,807	6.7
Total deposits . . . . .	\$517,826	3.0	\$501,526	3.9	\$441,302	5.2

As of December 31, 1993, certificates of deposit and other time deposits of \$100,000 or more mature as follows:

	Maturing				
	3 Months or less	3-6 Months	6-12 Months	Over 12 Months	Total
Certificates of deposit and other time deposits . . . . .	\$21,318	\$10,009	\$ 7,096		\$38,423
Per cent . . . . .	55%	26%	19%		100%

RETURN ON EQUITY AND ASSETS

	1993	1992	1991
Return on assets (net income divided by average total assets) . . . . .	1.39%	1.29%	1.21%
Return on equity (net income divided by average equity) . . . . .	13.01	12.71	12.41
Dividend payout ratio (dividends per share divided by net income per share) . . . . .	36.86	36.96	37.79
Equity to assets ratio (average equity divided by average total assets) . . . . .	10.68	10.16	9.72

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 STATISTICAL DATA (Continued)

SHORT-TERM BORROWINGS

	1993	1992	1991
	-----	-----	-----
	(Dollars in Thousands)		
Balance at December 31:			
Federal funds purchased. . . . .	\$ 5,300		
Securities sold under repurchase agreements. . . . .	26,363	\$ 27,340	\$33,592
U.S. Treasury demand notes . . . . .	15,227	9,733	15,471
	-----	-----	-----
Total short-term borrowings. . . . .	\$ 46,890	\$ 37,073	\$ 49,063
	-----	-----	-----

Securities sold under repurchase agreements are borrowings maturing within one year and are secured by U. S. Government securities.

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

	1993	1992	1991
	-----	-----	-----
	(Dollars in Thousands)		
Weighted average interest rate on outstanding balance at December 31:			
Securities sold under repurchase agreements. . .	2.86%	3.07%	4.39%
Total short-term borrowings. . . . .	2.88	3.00	4.27
Weighted average interest rate during the year:			
Securities sold under repurchase agreements. . .	2.94	3.88	6.00
Total short-term borrowings . . . . .	3.02	3.86	5.99
Highest amount outstanding at any month end during the year:			
Securities sold under repurchase agreements. . .	\$33,949	\$39,949	\$56,552
Total short-term borrowings. . . . .	51,130	49,141	74,849
Average amount outstanding during the year:			
Securities sold under repurchase agreements. . .	22,882	23,518	41,185
Total short-term borrowings. . . . .	35,317	35,796	59,878

ITEM 2. PROPERTIES.

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 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 seven branch buildings are owned by First Merchants; six remaining branches of First Merchants are located in leased premises. Four 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. 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

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ITEM 2. PROPERTIES (Continued)

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, 1993 was \$9,441,000.

ITEM 3. LEGAL PROCEEDINGS.  
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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.  
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No matters were submitted during the fourth quarter of 1993 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 59	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
Roger W. Gilcrest 56	Executive Vice President and Director, First Merchants	Executive Vice President First Merchants since July, 1988; Senior Vice President, First Source Bank prior to July, 1988; Director of First Merchants since July 1992.
Paul R. Hoover 52	Senior Vice President, First Merchants	Senior Vice President, First Merchants since 1987
Larry R. Helms 53	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 First Merchants since 1979; Director of First United and Pendleton since 1992
Lowell E. Williams 62	Senior Vice President, First Merchants	Senior Vice President First Merchants since 1979
James L. Thrash 44	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; Vice President, First Merchants prior to April 1990
Jack L. Demaree 45	Senior Vice President and Senior Commercial Loan Officer, First Merchants	Senior Vice President, First Merchants Bank since March 1992, Senior Commercial Loan Officer, First Merchants since 1987; Vice President, First Merchants prior to March 1992

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 and 3 of the Corporation's 1993 Annual Report to Stockholders, "The Spirit of Community Banking," 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 1993 Annual Report to Stockholders, "Financial Review," 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 6 of the Corporation's 1993 Annual Report to Stockholders, "Financial Review," 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 7 through 22 of the Corporation's 1993 Annual Report to Stockholders, "Financial Review," 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, 1993, 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 1994 Proxy Statement furnished to its stockholders in connection with an annual meeting to be held March 31, 1994 (the "1994 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 1994 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 1994 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 1994 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 "Financial Review" Page Number	Form 10-K Page Number
	-----	-----
(a)1. Financial Statements:		
Independent auditor's report . . . . .	Inside Cover	102
Consolidated balance sheet at December 31, 1993 and 1992 . . . . .	7	109
Consolidated statement of income, years ended December 31, 1993, 1992 and 1991 . .	8	110
Consolidated statement of changes in stockholders' equity, years ended December 31, 1993, 1992 and 1991 . . . . .	9	111
Consolidated statement of cash flows, years ended December 31, 1993, 1992 and 1991 . .	9-10	111-112
Notes to consolidated financial statements .	11-22	113-124

(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, dated September 20, 1982 and the Articles of Amendment thereto dated March 13, 1985 and March 14, 1988 . . . . .	27-49
3.2	Bylaws and amendments thereto dated February 12, 1985, February 20, 1987, July 14, 1987, December 8, 1987, December 13, 1988, November 14, 1989, August 13, 1991, April 14, 1992, and February 15, 1994 . . . . .	50-69

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

Exhibit No:	Description of Exhibit:	Form 10-K Page Number
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) . . . . .	70-73
10.6	1994 Stock Option Plan . . . . .	74-78
13	1993 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) . . . . .	79-124
22	Subsidiaries of Registrant . . . . .	24
23	Consent of Independent Auditors . . . . .	25
99.1	Financial statements and independent auditor's report for First Merchants Corporation Employee Stock Purchase Plan . .	26

- (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.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed for the three months ended December 31, 1993.

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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 15th day of March, 1994.

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 15, 1994
/s/ Thomas B. Clark ----- Thomas B. Clark	Director	March 15, 1994
/s/ Michael L. Cox ----- Michael L. Cox	Director	March 15, 1994
/s/ Clell W. Douglass ----- Clell W. Douglass	Director	March 15, 1994
/s/ David A. Galliher ----- David A. Galliher	Director	March 15, 1994
/s/ Thomas K. Gardiner ----- Thomas K. Gardiner	Director	March 15, 1994
/s/ Hurley C. Goodall ----- Hurley C. Goodall	Director	March 15, 1994
/s/ John W. Hartmeyer ----- John W. Hartmeyer	Director	March 15, 1994
/s/ Nelson W. Heinrichs ----- Nelson W. Heinrichs	Director	March 15, 1994

Signature	Capacity	Date
/s/ Jon H. Moll ----- Jon H. Moll	Director	March 15, 1994
/s/ Robert M. Smitson ----- Robert M. Smitson	Director	March 15, 1994
----- Joseph E. Wilson	Director	March 15, 1994
----- Robert F. Wisehart	Director	March 15, 1994
/s/ John E. Worthen ----- John E. Worthen	Director	March 15, 1994
/s/ James L. Thrash ----- James L. Thrash	Principal Financial and Principal Accounting Officer	March 15, 1994

Exhibit No:	Description of Exhibit:	Form 10-K Page Number
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10.6	1994 Stock Option Plan . . . . .	74-78
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22	Subsidiaries of Registrant . . . . .	24
23	Consent of Independent Auditors . . . . .	25
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- (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.

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EXHIBIT 22--SUBSIDIARIES OF THE REGISTRANT  
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Name -----	State of Incorporation -----
First Merchants Bank, National Association. . . . .	U.S.
Pendleton Banking Company . . . . .	Indiana
First United Bank . . . . .	Indiana



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EXHIBIT 23--CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
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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 21, 1994 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.

Indianapolis, Indiana  
March 18, 1994

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EXHIBIT 99.1--FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR  
FIRST MERCHANTS CORPORATION EMPLOYEE STOCK PURCHASE PLAN  
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The annual financial statements and independent auditor's report thereon for First Merchants Corporation Employee Stock Purchase Plan for the year ending June 30, 1994, will be filed as an amendment to the 1993 Annual Report on Form 10-K no later than October 28, 1994.

FEE: Minimum fee for up to 1,000 shares.....	\$ 36.00	Corporate Form No. 101 (Oct. 1981) - Page One
Fee for shares over 1,000 but less than 200,000 @ 2 CENTS per share.....	+\$ 3,980.00	ARTICLES OF INCORPORATION
Fee for shares over 200,000 but less than 1,000,000 @ 1 CENT per share.....	+\$ 3,000.00	Edwin J. Simcox, Secretary of State of Indiana
Fee for shares over 1,000,000 @ 0.2 CENTS per share.....	+\$	Use White Paper - Size 8 1/2 x 11 - For Inserts
Total Fee Due	\$ 7,016.00	Filing Requirements - Present 2 originally signed and fully executed copies to Secretary of State, Room 155, State House, Indianapolis 46204
		Recording Requirements - Recording of Articles of Incorporation in the Office of the County Recorder is no longer required by the Indiana General Corporation Act.

ARTICLES OF INCORPORATION  
OF  
FIRST MERCHANTS CORPORATION

The undersigned incorporator or incorporators desiring to form a corporation (hereinafter referred to as the "Corporation") pursuant to the provisions of (Indicate appropriate act)

- /XX/ Indiana General Corporation Act
- / / Medical Professional Corporation Act
- / / Dental Professional Corporation Act
- / / Professional Corporation Act of 1965
- / / I.C. 23-1-13.5 (Professional Accounting Corporations) pursuant to the Indiana General Corporation Act.  
(Professional Accounting Corporations are considered to be formed pursuant to the authority of the Indiana General Corporation Act, but subject to the provisions of I.C. 23-1-13.5)

as amended (hereinafter referred to as the 'Act'), execute the following Articles of Incorporation:

ARTICLE I  
NAME

The name of the Corporation is FIRST MERCHANTS CORPORATION

(The name must contain the word "Corporation" or "Incorporated", or an abbreviation of one of these words.)

ARTICLE II  
PURPOSES

The purposes for which the Corporation is formed are:

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

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

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

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

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

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

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

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



Prescribed by Edwin J. Simcox, Secretary of State  
(Oct. 1981)

ARTICLE VI  
REQUIREMENTS PRIOR TO DOING BUSINESS

The Corporation will not commence business until consideration of the value of at least \$1,000 (one thousand dollars) has been received for the issuance of shares.

ARTICLE II  
DIRECTORS(S)

SECTION 1. NUMBER OF DIRECTORS: The initial Board of Directors is composed of.....16..... member(s). The number of directors may be from time to time fixed by the By-Laws of the Corporation at any number. In the absence of a By-Law fixing the number of directors, the number shall be.....sixteen.....

Section 2. Names and Post Office Addresses of the Director(s): The name(s) and post office address(es) of the initial Board of Director(s) of the Corporation is (are):

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

SECTION 3. QUALIFICATIONS OF DIRECTORS (IF ANY):

Directors need not be shareholders of the Corporation.

Prescribed by Edwin J. Simcox, Secretary of State  
(Oct. 1981)

ARTICLE VIII  
INCORPORATOR(S)

The name(s) and post office address(es) of the incorporator(s) of the Corporation is (are):

Name	Number and Street or Building	City	State	Zip Code
----	-----	----	-----	-----
Stefan S. Anderson	200 East Jackson Street	Muncie	IN	47305

ARTICLE IX  
PROVISIONS FOR REGULATION OF BUSINESS  
AND CONDUCT OF AFFAIRS OF CORPORATION

("Powers" of the Corporation, its directors or shareholders)  
(Attach additional pages, if necessary)

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

SECTION 2. MEETINGS OF DIRECTORS. Meetings of Directors of the Corporation shall be held at such place, within or without the State of Indiana, as may be specified in the notices or waivers of notice of such meetings.

(See attached pages.)

THIS DOCUMENT MUST BE SIGNED BY ALL INCORPORATORS.  
I (We) hereby verify subject to penalties of perjury that the facts contained herein are true, (Notarization is not necessary)

..... (Written Signature)	/s/ Stefan S. Anderson Stefan S. Anderson ..... (Printed Signature)
..... (Written Signature)	..... (Printed Signature)
..... (Written Signature)	..... (Printed Signature)

This instrument was prepared by DeFur, Voran, Hanley, Radcliff & Reed ,  
.....  
(Name)

Attorney at Law, 201 East Jackson Street Muncie IN 47305  
.....  
(Number and Street or Building) (City) (State) (Zipcode)

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

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

SECTION 4. BY-LAWS OF THE CORPORATION. The Board of Directors by a majority vote of the actual number of Directors elected and qualified from time to time shall have the power, without the assent or vote of the shareholders, to make, alter, amend or repeal the By-Laws of the Corporation.

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.

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



SECTION 6. CONSENT ACTION BY DIRECTORS. Any action required or permitted to be taken at any meeting of the Board of Directors 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 7. INTEREST OF DIRECTORS IN CONTRACTS. Any contract or other transaction between the Corporation or any corporation in which this Corporation owns a majority of the capital stock shall be valid and binding, notwithstanding that the directors or officers of this Corporation are identical or that some or all of the directors or officers, or both, are also directors or officers of such other corporation.

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

SECTION 8. INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS. Every person who is or was a director, officer, employee or agent of this Corporation or of any other corporation for which he is or was serving in any capacity at the request of this Corporation shall be indemnified by this Corporation against any and all liability and expense that may be incurred by him in connection with or resulting from or arising out of any claim, action, suit or proceeding, provided that such person is wholly successful with respect thereto or acted in good faith in what he reasonably believed to be in or not opposed to the best interest of this Corporation or such other criminal action or proceeding in which he had no reasonable cause to believe that his conduct was unlawful. As used herein, "claim, action, suit or proceeding shall include any claim, action, suit or proceeding (whether brought by or in the right of this Corporation or such other corporation or otherwise), civil, criminal, administrative or investigative, whether actual or threatened or in connection with an appeal relating thereto, in which a director, officer, employee or agent of this Corporation may become involved, as a party or otherwise,

(i) by reason of his being or having been a director, officer, employee, or agent of this Corporation or such other corporation or arising out of his status as such or

(ii) by reason of any past or future action taken or not taken by him in any such capacity, whether or not he continues to be such at the time such liability or expense is incurred.

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

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

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

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

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

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

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

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

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

[Seal] ARTICLES OF AMENDMENT OF THE ARTICLES OF INCORPORATION  
State Form 38333R / Corporate Form No. 102 (June 1984)  
Articles of Amendment (Amending Individual Articles Only)  
Prescribe by Edwin J. Simcox, Secretary of State of Indiana

RECORDING REQUIREMENTS-RECORDING OF ARTICLES OF AMENDMENT IN THE OFFICE OF THE COUNTY RECORDER IS GENERALLY NO LONGER REQUIRED BY THE INDIANA GENERAL CORPORATION ACT. HOWEVER, IF THE NAME OF THE CORPORATION IS CHANGED BY THIS AMENDMENT, A CERTIFIED COPY OF THE CERTIFICATE OF AMENDMENT MUST BE FILED WITH THE RECORDER OF EVERY COUNTY IN WHICH THE CORPORATION OWNS REAL ESTATE.

INSTRUCTIONS: PRESENT 2 ORIGINALLY SIGNED AND FULLY EXECUTED COPIES TO:

SECRETARY OF STATE  
ROOM 155, STATE HOUSE  
INDIANAPOLIS, INDIANA 46204  
(317) 232-6576

ARTICLES OF AMENDMENT  
OF THE  
ARTICLES OF INCORPORATION  
OF

FIRST MERCHANTS CORPORATION

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The undersigned officers of

FIRST MERCHANTS CORPORATION  
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(hereinafter referred to as the "Corporation") existing pursuant to the provisions of:

(INDICATE APPROPRIATE ACT)

/x/ Indiana General Corporation Act    / / Indiana Professional Corporation Act of 1983 as amended (hereinafter referred to as the "Act"), desiring to give notice of corporate action effectuating amendment of certain provisions of its Articles of Incorporation, certify the following facts :

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ARTICLE I AMENDMENT(S)  
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SECTION 1 The date of Incorporation of the corporation is:  
September 20, 1982

SECTION 2 The name of the corporation following this amendment to the Articles of Incorporation is:

FIRST MERCHANTS CORPORATION  
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SECTION 3

The exact text of Article(s) V, Section 1 of Article VII, Sections 4, 11 and 12 of Article IX, and Article X of the Articles of Incorporation is now as follows:

(See Attached)  
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TEXT OF ARTICLE V (As Amended)

ARTICLE V

AUTHORIZED SHARES

SECTION 1. NUMBER OF SHARES. The total number of shares of common stock which the Corporation is to have authority to issue is 2,000,000, all with no par value. The total number of shares of preferred stock the Corporation is to have authority to issue is 500,000, all with no par value.

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

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

TEXT OF ARTICLE VII, Section 1 (As Amended)

ARTICLE VII

DIRECTORS

Section 1. NUMBER. The number of Directors of the Corporation shall not be less than twelve (12) nor more than twenty-one (21), as may be specified from time to time by the By-Laws. If and whenever the By-Laws do not contain a provision specifying the number of Directors, the number shall be sixteen (16). The Directors shall be classified, with respect to the time for which they severally hold office, into three (3) classes as nearly equal in number as possible, as shall be specified in the By-Laws, one class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1986, another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1987, and another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1988, with each Director to hold office until his successor is elected and qualified. At each annual meeting of shareholders, the successor of each Director whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of his election, or until his successor is elected and qualified.

TEXT OF ARTICLE IX  
Sections 4 (Amended),  
11 (new) and 12 (new)

ARTICLE IX

PROVISIONS FOR REGULATION OF BUSINESS  
AND CONDUCT OF AFFAIRS OF CORPORATION

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

[The balance of Section 4 remains unchanged.]

SECTION 11. REMOVAL OF DIRECTORS. 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.

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

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



1. Any merger or consolidation of the Corporation or its subsidiary or subsidiaries (as hereinafter defined) with or into either of the following:
  - (a) 10% Shareholders (as hereinafter defined); or
  - (b) Any other corporation (whether or not itself a 10% Shareholder) which, after such merger or consolidation, would be an Affiliate (as hereinafter defined) of a 10% Shareholder.
2. Any sale, lease, exchange, transfer or other disposition (including, without limitation, the granting of a mortgage or other security interest) to or with any 10% Shareholder of any material part of the assets of the Corporation or any of its subsidiaries; and
3. A liquidation or dissolution of the Corporation or any material subsidiary thereof or adoption of any plan with respect thereto.
4. Any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its subsidiaries or any other transaction (whether or not with or into or otherwise involving a 10% Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the Corporation or any subsidiary which is directly or indirectly owned by any 10% Shareholder; and
5. Any agreement, contract or other arrangement providing for any one or more of the actions specified in the foregoing clauses (A)1. through (A)4.

(B) Prior to the approval of any of the transactions referred to in subsection (A) of this section ("Business Combination"), the Board of Directors of the Corporation shall make an evaluation of all relevant factors and issues arising out of or in connection with any such Business Combination and shall report to the shareholders the conclusion which the Board of Directors reaches from such evaluation. Relevant factors

and issues shall include consideration of the impact which any such Business Combination will have on the community in which the Corporation or its subsidiaries conducts business, the employees of the Corporation or any of its subsidiaries, and the suppliers and customers of the Corporation and its subsidiaries, and shall also include any and all other factors which the Board of Directors in its discretion deems relevant.

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

1. "10% Shareholder" shall mean, in respect of any Business Combination, any person (other than the Corporation) who or which, as of the record date for the determination of shareholders entitled to notice of and to vote on such Business Combination or immediately prior to the consummation of any such Business Combination:
  - (a) Is the beneficial owner (as determined in accordance with Rule 13d-3 promulgated by the Securities and Exchange Commission) ("Beneficial Owner"), directly or indirectly, of not less than ten percent (10%) of the Voting Shares; or
  - (b) Is an Affiliate (as hereinafter defined) of the Corporation and at any time within two years prior thereto was the Beneficial Owner, directly or indirectly, of not less than ten percent (10%) of the then outstanding Voting Shares; or
  - (c) Any individual, corporation, partnership or other person or entity which, together with any of its Affiliates (as hereinafter defined), beneficially owns in the aggregate more than ten percent (10%) of the Voting Shares of the Corporation.
2. "Voting Shares" includes:
  - (a) Any securities of the Corporation which are entitled to vote on any matter referred to in this section;
  - (b) Any securities, including but not limited to, preferred stock, bonds, debentures, or options, which can be

3.

converted into voting securities at the time of the vote referred to in this section; and

(c) Security agreements of any nature for which voting securities are pledged as collateral.

3. "Affiliate" shall include all persons who would be defined as affiliates under Rule 12b-2 under the Securities Exchange Act of 1934.

4. "Subsidiary" means any corporation of which a majority of any class of equity securities (as defined in Rule 3a 11-1 of the general rules and regulations under the Securities Exchange Act of 1934) are owned, directly or indirectly by the Corporation; provided, however, that for the purposes of the definition of a 10% Shareholder set forth above, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.

5. "Fair Market Value" means:

(1) In the case of stock, in the absence of any determination price as established on a national, regional, or local exchange or over-the-counter market, or in the absence of any market-maker dealing in the stock on a regular basis, the fair "market" value of such stock on the date in question as determined by the Board in good faith; and

(2) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by the Board in good faith.

(D) The additional voting requirement set forth in subsection (A) above shall not be applicable, and any such Business Combination shall require the affirmative vote of two-thirds (2/3) of the Voting Shares, if one of the following occur:

1. The Business Combination shall have been approved by two-thirds (2/3) of the Directors of the Corporation; or

2. All of the following conditions shall have been met:

(a) The aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the greater of (i) and (ii), where (i) is the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the 10% Shareholder or any other party for any shares of Common Stock acquired within the two-year period immediately prior to the first public announcement of the proposal of the Business Combination (the "Announcement Date") or, if higher, the per share price paid in the transaction in which the 10% Shareholder became a 10% Shareholder, and (ii) is the per share book value of the Corporation reported at the end of the fiscal quarter immediately preceding the later of any public announcement of any proposed Business Combination or the meeting date on which the shareholders are to consider the proposed Business Combination;

(b) The consideration to be received by holders of a particular class of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as the 10% Shareholder has previously paid for shares of such class of Voting Stock. If the 10% Shareholder has paid for shares of any class of Voting Stock with varying forms of consideration, the form of consideration for such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class of Voting Stock previously acquired by it;

(c) A proxy or information statement describing the proposed merger or consolidation and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations)

shall be mailed to Shareholders of the Corporation at least thirty (30) days prior to the meeting of shareholders called to consider the proposed Business Combination or, if no meeting, thirty (30) days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

6.

TEXT OF ARTICLE X (new)

ARTICLE X

AMENDMENTS

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

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

ARTICLES OF AMENDMENT

(August, 1987)

Prescribed by Evan Bayh  
Secretary of State of Indiana

Present Original and One Copy  
Filing Fee: \$30

ARTICLES OF AMENDMENT

OF THE  
ARTICLES OF INCORPORATION  
OF

FIRST MERCHANTS CORPORATION

-----  
(Corporate Name)

The above corporation (hereinafter referred to as the Corporation") existing pursuant to the Indiana Business Corporation Law, desiring to give notice of corporate action effectuating amendment of certain provisions of its Articles of Incorporations, sets forth the following facts:

ARTICLE I  
AMENDMENT(S)

SECTION 1: The name of the Corporation following this amendment is:

First Merchants Corporation  
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SECTION 2: The exact text of Article(s) V, Section 1

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of the Articles of Incorporation is now as follows (Attach additional pages if necessary):

ARTICLE V

AUTHORIZED SHARES

SECTION 1. NUMBER OF SHARES. The total number of shares of common stock which the Corporation is to have authority to issue is 5,000,000, all with no par value. The total number of shares of preferred stock the Corporation is to have authority to issue is 500,000, all with no par value.

SECTION 3: The date of each amendment's adoption is:

March 9, 1988  
-----

SECTION 4: (Complete this section only if amendment provides for an exchange, reclassification or cancellation of issued shares and provisions for implementing the amendment are not contained in the amendment itself.)

Provisions for implementing the exchange, reclassification or cancellation of issued shares are set forth below (Attach additional pages if necessary):

N/A

ARTICLE II  
MANNER OF ADOPTION AND VOTE  
(Strike inapplicable section)

SECTION 1:

SECTION 2: VOTE OF SHAREHOLDERS

The designation (i.e. common, preferred and any classification where different classes of stock exists), number of outstanding shares, number of votes entitled to be cast by each voting group entitled to vote separately on the amendment and the number of votes of each voting group represented at the meeting is set forth below:

	TOTAL	A	B	C
Designation of Each Voting Group	Common			
Number of Outstanding Shares	1,840,000			
Number of Votes Entitled To Be Cast	1,840,000			
Number of Votes Represented At Meeting	1,635,380			
Shares Voted in Favor	1,627,751			
Shares Voted Against	7,629			





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

Any such director, officer, employee, or agent, who has been wholly successful with respect to any such claim, action, suit or proceeding shall be entitled to indemnification as a matter of right. Except as provided in the preceding sentence, any indemnification hereunder shall be made only if

- (i) the Board of Directors acting by a quorum consisting of Directors who are not parties to or who have been wholly successful with respect to such claim, action, suit or proceeding shall find that the director, officer, employee, or agent, has met the standards of conduct set forth in the preceding paragraph; or
- (ii) independent legal counsel shall deliver to the Corporation their written opinion that such director, officer, employee, or agent, has met such standards of conduct.

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

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

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

AMENDMENTS 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 when 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 of 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

AMENDMENTS TO THE  
BY-LAWS OF FIRST MERCHANTS CORPORATION

In accordance with Article IX, Section 6 of the Corporation's Articles of Incorporation, and Article V, Section 7 of the By-Laws of the Corporation, the following resolutions are adopted by unanimous written consent of the Board of Directors, effective  
March 11, 1987.

RESOLVED that, Paragraph 1 of Article V, Section 1 of the By-Laws of the Corporation will be amended to read as follows:

"The number of Directors of the Corporation to be elected by the holders of the shares of common stock entitled by the Articles of Incorporation to elect Directors shall be fourteen (14) unless changed by amendment of this section by a two-thirds (2/3) vote of the Board of Directors."

Be it further resolved that,

The number of members included in Class II of the Board of Directors shall be reduced from five (5) to four (4). The number of members in Class III shall be reduced from six (6) to five (5).

DATED: FEBRUARY 20, 1987

RESOLUTIONS OF THE BOARD OF DIRECTORS  
OF FIRST MERCHANTS CORPORATION

In accordance with Article IX, Section 6 of the Corporation's Articles of Incorporation, and Article V, Section 7 of the Corporation's By-Laws, the following resolution is adopted by unanimous written consent of the Board of Directors, effective July 14, 1987.

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

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 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. Unless the number of Directors is changed by amendment of this Section, each class shall have five (5) 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.

Dated: July 14, 1987

RESOLUTIONS OF THE BOARD OF DIRECTORS  
OF FIRST MERCHANTS CORPORATION

RESOLVED that Article V, Section 1, of the By-Laws of the Corporation is amended to read as follows, effective March 9, 1988:

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 thirteen (13) 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 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. Unless the number of Directors is changed by amendment of this Section, Class I shall have five (5) Directors, and Classes II and III shall each 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 By-Laws may not be changed or amended except by a two-thirds (2/3) vote of the Board of Directors.

FURTHER RESOLVED that, effective March 9, 1988, Director Nelson W. Heinrichs shall be moved from Class II to Class III, and that he shall be nominated for election as a Director at the 1988 annual meeting of shareholders, for a term expiring as of the 1991 annual meeting of shareholders.

Dated: December 8, 1987



RESOLUTIONS OF THE BOARD OF DIRECTORS  
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 March 29, 1989:

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 thirteen (13) unless changed by amendment of this Section by a two-thirds (2/3) vote of the Board of Directors.

The Director 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. Unless the number of Directors is changed by amendment of this Section, Class I shall have five (5) Directors, and Classes II and III shall each 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 By-Laws may not be changed or amended except by a two-thirds (2/3) vote of the Board of Directors.

FURTHER RESOLVED that, effective March 29, 1989, Director James R. Ayers shall be moved from Class II to Class I, and that he shall be nominated for election as a Director at the 1989 annual meeting of the shareholders, for a term expiring as of the 1992 annual meeting of shareholders.

Dated: December 13, 1988

RESOLUTIONS OF THE BOARD OF DIRECTORS  
OF FIRST MERCHANTS CORPORATION

RESOLVED that Article V, Section 1, of the Bylaws 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 fourteen (14) 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 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. Unless the number of Directors is changed by amendment of this Section, Classes I and II shall each have five (5) 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 Thomas B. Clark is hereby elected a Director of the Corporation, and that he shall fill the vacancy in Class II caused by the increase in the number of Directors.

Dated: November 14, 1989

RESOLUTIONS OF THE BOARD OF DIRECTORS  
OF FIRST MERCHANTS CORPORATION

WHEREAS, under the Agreement of Reorganization and Merger (the "Merger Agreement") between First Merchants Corporation (the "Corporation") and First United Bancorp, Inc., the Corporation agreed to create a vacancy on its Board of Directors and to elect Robert F. Wisehart to fill this vacancy, effective as of the consummation of the Merger Agreement; and

WHEREAS, the Merger Agreement was consummated on JULY 31, 1991.

NOW, THEREFORE, BE IT RESOLVED that Article V, Section 1, of the Bylaws 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 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. Unless the number of Directors is changed by amendment of this Section, Classes I, II and III shall each have five (5) 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 Robert F. Wisehart is hereby elected a Director of the Corporation, and that he shall fill the vacancy in Class III caused by the increase in the number of Directors.

Dated: August 13, 1991

RESOLUTIONS OF THE BOARD OF DIRECTORS  
OF FIRST MERCHANTS CORPORATION

RESOLVED that Article V, Section 1, of the Bylaws 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 sixteen (16) 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 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. Unless the number of Directors is changed by amendment of this Section, Classes I and III shall each have five (5) Directors, and Class II 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.

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 Hurley C. Goodall is hereby elected a Director of the Corporation, and that he shall fill the vacancy in Class II caused by the increase in the number of Directors.

Dated: April 14, 1992

RESOLUTIONS OF THE BOARD OF DIRECTORS  
OF FIRST MERCHANTS CORPORATION

RESOLVED that article V, Section 1, of the Bylaws of the Corporation is hereby amended to read as follows, effective March 31, 1994:

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 thirteen (13) 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 four (4) Directors, Class II shall have six (6) Directors, and Class III shall have three (3) 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.

Dated: February 15, 1994

INTRODUCTION

The First Merchants Corporation Employee Stock Purchase Plan (the "PLAN") was adopted by the Board of Directors (the "BOARD") of First Merchants Corporation (the "Company") on December 14, 1993, subject to approval of the Company's shareholders at their annual meeting on March 31, 1994. The effective date of the Plan shall be July 1, 1994, if it is approved by the shareholders. The purpose of the Plan is to provide eligible employees of the Company and its subsidiaries a convenient opportunity to purchase shares of common stock of the Company through annual offerings financed by payroll deductions. The Plan may continue until all the stock allocated to it has been purchased or until after the fifth offering is completed, whichever is earlier. The Board may terminate the Plan at any time, or make such amendment of the Plan as it may deem advisable, but no amendment may be made without the approval of the Company's shareholders if it would materially: (i) increase the benefits accruing to participants under the Plan; (ii) modify the requirements as to eligibility for participation in the Plan; (iii) increase the number of shares which may be issued under the Plan, (iv) increase the cost of the Plan to the Company; or (v) alter the allocation of Plan benefits among participating employees.

The Plan is not qualified under Section 401(a) of the Internal Revenue Code of 1986 (the "CODE") and is not subject to any provisions of the Employee Retirement Income Security Act of 1974 (ERISA). It is the Company's intention to have the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code, and the provisions of the Plan shall be construed so as to extend and limit participation in a manner consistent with the requirements of that Section of the Code.

ADMINISTRATION

The Plan is administered by the Compensation Committee (the "COMMITTEE"), which consists of three or more members of the Board, none of whom are eligible to participate in the Plan and all of whom shall be "disinterested persons," as such term is defined in the rules of the Securities and Exchange Commission, as amended from time to time. The Committee shall prescribe rules and regulations for the administration of the Plan and interpret its provisions. The Committee may correct any defect, reconcile any inconsistency or resolve any ambiguity in the Plan. The actions and determinations of the Committee on matters relating to the Plan are conclusive. The Committee and its members may be addressed in care of the Company at its principal executive office. The members of the Committee do not serve for fixed periods but may be appointed or removed at any time by the Board.

STOCK SUBJECT TO THE PLAN

An aggregate of 112,500 shares of common stock, without par value, of the Company (the "COMMON STOCK") is available for purchase under the Plan. Shares of Common Stock which are to be delivered under the Plan may be obtained by the Company by authorized

purchases on the open market or from private sources, or by issuing authorized but unissued shares of Common Stock. In the event of any change in the Common Stock through recapitalization, merger, consolidation, stock dividend or split, combination or exchanges of shares or otherwise, the Committee may make such equitable adjustments in the Plan and the then outstanding offering as it deems necessary and appropriate including, but not limited to, changing the number of shares of Common Stock reserved under the Plan and the price of the current offering. If the number of shares of Common Stock that participating employees become entitled to purchase is greater than the number of shares of Common Stock available, the available shares shall be allocated by the Committee among such participating employees in such manner as it deems fair and equitable. No fractional shares of Common Stock shall be issued or sold under the Plan.

#### ELIGIBILITY

All employees of the Company and such of its subsidiaries as shall be designated by the Committee will be eligible to participate in the Plan. No employee shall be eligible to participate in the Plan if his or her customary employment is less than 20 hours per week. No employee shall be eligible to participate in an offering unless he or she has been continuously employed by the Company or subsidiary for at least six months as of the first day of such offering. No employee shall be eligible to participate in the Plan if, immediately after an option is granted under the Plan, the employee owns more than five percent (5%) of the total combined voting power or value of all classes of shares of the Company or of any parent or subsidiary of the Company.

#### OFFERINGS, PARTICIPATING, DEDUCTIONS

The Company may make up to five offerings of 12 months' duration each to eligible employees to purchase Common Stock under the Plan. An eligible employee may participate in such offering by authorizing at any time prior to the first day of such offering a payroll deduction for such purpose in whole dollar amounts, up to a maximum of twenty percent (20%) of his or her basic salary or wages, excluding any bonus, overtime, incentive or other similar extraordinary remuneration received by such employee. The Committee may at any time suspend an offering if required by law or if determined by the Committee to be in the best interests of the Company.

The Company will maintain or cause to be maintained payroll deduction accounts for all participating employees. All funds received or held by the Company or its subsidiaries under the Plan may be, but need not be, segregated from other corporate funds. Payroll deduction accounts will be credited with interest at such rates and intervals as the Committee shall determine from time to time. Any balance remaining in any employee's payroll deduction account at the end of an offering period will be refunded to the employee.

Each participating employee will receive a statement of his or her payroll deduction account and the number of shares of Common Stock purchased therewith following the end of each offering period.

Subject to rules, procedures and forms adopted by the Committee, a participating employee may at any time during the offering period increase, decrease or suspend his or her payroll deduction, or may withdraw the entire balance of his or her payroll deduction

account and thereby withdraw from participation in an offering. Under the initial rules established by the Committee, payroll deductions may not be altered more than once in each offering period and withdrawal requests may be received on or before the last day of such offering. In the event of a participating employee's retirement, death or termination of employment, his or her participation in any offering under the Plan shall cease, no further amounts shall be deducted pursuant to the Plan, and the balance in the employee's account shall be paid to the employee, or, in the event of the employee's death, to the employee's beneficiary designated on a form approved by the Committee (or, if the employee has not designated a beneficiary, to his or her estate).

#### PURCHASE, LIMITATIONS, PRICE

Each employee participating in any offering under the Plan will be granted an option, upon the effective date of such offering, for as many full shares of Common Stock as the amount of his or her payroll deduction account at the end of any offering period can purchase. No employee may be granted an option under the Plan which permits his or her rights to purchase Common Stock under the Plan, and any other stock purchase plan of the Company or a parent or subsidiary of the Company qualified under Section 423 of the Code, to accrue at a rate which exceeds \$25,000 of the fair market value of such Common Stock (determined at the effective date of the offering) for each calendar year in which the option is outstanding at any time. As of the last day of the offering period, the payroll deduction account of each participating employee shall be totaled. If such account contains sufficient funds to purchase one or more full shares of Common Stock as of that date, the employee shall be deemed to have exercised an option to purchase the largest number of full shares of Common Stock at the offering price. Such employee's account will be charged for the amount of the purchase and a stock certificate representing such shares will be issued.

The Committee shall determine the purchase price of the shares of Common Stock which are to be sold under each offering, which price shall be the lesser of (i) an amount equal to 85 percent of the Fair Market Value of the Common Stock at the time such option is granted, or (ii) an amount equal to 85 percent of the Fair Market Value of the Common Stock at the time such option is exercised. Fair Market Value of a share of Common Stock on a given date is defined as the average price between the highest "bid" and lowest "offered" quotations of a share on such date (or, if none, on the most recent date on which there were bid and offered quotations of a share), as reported by the National Association of Securities Dealers Automated Quotation System, or other similar service selected by the Committee. However, if the Common Stock is listed on a national securities exchange, Fair Market Value is defined as the last reported sale price of a share on such date, or if no sale took place, the last reported sale price of a share of stock on the most recent day on which a sale of a share of stock took place as recorded on such exchange. If the Common Stock is neither listed on such date on a national securities exchange nor traded in the over-the-counter market, Fair Market Value is defined as the fair market value of a share on such date as determined in good faith by the Committee.



## TRANSFER OF INTERESTS, STOCK CERTIFICATES

No option, right or benefit under the Plan may be transferred by a participating employee other than by will or the laws of descent and distribution, and all options, rights and benefits under the Plan may be exercised during the participating employee's lifetime only by such employee or the employee's guardian or legal representative. There are no restrictions imposed by or under the Plan upon the resale of shares of Common Stock issued under the Plan.

Certain officers of the Company are subject to restrictions under Section 16(b) of the Securities Exchange Act of 1934 (the "1934 ACT"). With respect to such officers, transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 1934 Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void if permitted by law and deemed advisable by the Committee.

Certificates for Common Stock purchased under the Plan may be registered only in the name of the participating employee, or, if such employee so indicates on his or her authorization form, in his or her name jointly with a member of his or her family, with right of survivorship. An employee who is a resident of a jurisdiction which does not recognize such a joint tenancy may have certificates registered in the employee's name as tenant in common with a member of the employee's family, without right of survivorship.

FIRST MERCHANTS CORPORATION

1994 STOCK OPTION PLAN

I. PURPOSE

The purposes of the First Merchants Corporation 1994 Stock Option Plan (the "Plan") are to promote the long-term success of First Merchants Corporation (the "Company") and its subsidiaries, and to attract, retain, and motivate key employees and directors while creating a long-term mutuality of interest with shareholders.

II. ADMINISTRATION

The Plan shall be administered by the Compensation Committee (the "Committee"), consisting of three or more non-employee members of the Board of Directors of the Company (the "Board"), all of whom shall be "disinterested persons" as such term is defined in the rules of the Securities and Exchange Commission, as amended from time to time. The Committee shall have full authority to establish regulations for the administration of the Plan and to make any other determination it deems necessary to administer the Plan, except as expressly provided in the Plan.

III. ELIGIBILITY FOR AWARD

Non-employee directors of the Company who are serving as directors on the date of grant shall automatically receive options under the Plan, as provided in Section IV. In addition, the Committee shall designate key employees (not non-employee directors) of the Company or any subsidiary of the Company to receive options under the Plan.

IV. ALLOTMENT OF SHARES

Shares of common stock of the Company to be issued under the Plan shall be made available, at the discretion of the Board, either from authorized but unissued shares or from issued shares reacquired by the Company. The aggregate number of shares of common stock that may be issued under the Plan shall not exceed 210,000 shares. Where options are for any reason canceled, or expire or terminate unexercised, the shares covered by such options shall again be available for grant of options within the limits provided by the preceding sentence. Options may be allotted to eligible employees (not non-employee directors) at such times and in such amounts as the Committee, in its sole discretion, may determine, provided, however, that in the case of options which are intended to be incentive stock options ("Incentive Stock Options") within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code"):

- (i) the option holder, at the time the option is granted, shall not own common stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, and

- (ii) the aggregate Fair Market Value (determined at the time the option is granted) of the stock with respect to which the options are exercisable for the first time by an individual during any calendar year (under all such plans of the Company and any parent or subsidiary corporations) shall not exceed \$100,000.

Options to purchase 400 shares of common stock, which shall be options that do not qualify as Incentive Stock Options ("Non-Qualified Stock Options"), shall automatically be granted to all non-employee directors of the Company each July 1 during the term of the Plan. However, if at any time insufficient shares remain available for allotment to non-employee directors in accordance with the preceding sentence, the number of options allotted to each such director shall be reduced proportionally.

#### V. GRANTING OF OPTIONS

All options granted under the Plan shall be in such form as the Committee may from time to time approve. The Committee shall determine in each case whether the options are Incentive Stock Options or Non-Qualified Stock Options; provided, however, options granted to non-employee directors must be Non-Qualified Stock Options. All options granted under the Plan shall be subject to the following terms and conditions:

(a) OPTION PRICE. The option price per share with respect to each option granted to a non-employee director shall be equal to 100% of the Fair Market Value of the common stock at the date the option is granted. The Committee shall determine the option price per share with respect to each option granted to an eligible employee; provided, however, the option price shall not be less than 100% of the Fair Market Value of the common stock at the date the option is granted.

(b) PERIOD OF OPTION. Unless a shorter period is fixed by the Committee or another provision of this Plan, each option may be exercised during a period of ten years from the date the option was granted.

(c) PAYMENT. The option price shall be payable in cash, by tender to the Company of shares of Company stock owned by the option holder, or by any combination thereof. No shares shall be issued until full payment has been made. A holder of an option shall have none of the rights of a shareholder until the shares are issued.

(d) EXERCISE OF OPTIONS. The shares covered by an option may be purchased on such installments and on such exercise dates as the Committee may determine, provided, however, that no option shall become exercisable until at least six months after grant unless disability of the option holder occurs before the expiration of the six-month period. Any shares not purchased on the applicable exercise date may be purchased thereafter at any time prior to the final expiration of the option. In no event shall any option be exercisable after the expiration of ten years from the date upon which the option was granted. Each option shall become exercisable according to terms set by the Committee at the time of grant, except as specified in Section VI (Acceleration of Exercisability on Change of Control). The Committee may direct that an option become exercisable in installments, which need not be annual installments, over a period which may be less than the term of the option. At such time as an installment shall become exercisable, it may be exercised at any time thereafter in whole or in part until the expiration or termination of the option. The

Committee may, in its sole discretion, prescribe shorter or longer time periods and additional requirements with respect to exercise of an option.

(e) NONTRANSFERABILITY OF OPTIONS. An option granted under the Plan may not be transferred except by will or the laws of descent and distribution and, during the lifetime of the employee or director to whom granted, may be exercised only by such employee or director, or his or her guardian or legal representative.

(f) TERMINATION OF EMPLOYMENT. Upon the termination of an option holder's employment (for any reason other than retirement, disability, death or termination for deliberate, willful or gross misconduct), option privileges shall be limited to the shares which were immediately purchasable at the date of such termination and such option privileges shall expire unless exercised before the date of such termination. If an option holder's employment is terminated for deliberate, willful or gross misconduct, as determined by the Board, all rights under the option shall expire upon receipt of the notice of such termination.

(g) RETIREMENT OR DISABILITY OF AN OPTION HOLDER. In the event of an option holder's disability (within the meaning of Section 22(e)(3) of the Code) or retirement as an employee or director, option privileges shall apply to those shares immediately purchasable at the date of separation from service. The Committee, in its sole discretion, may provide that any options outstanding but not yet exercisable upon the separation of the option holder may become exercisable in accordance with a schedule determined by the Committee; provided, however, that in the event of retirement no options shall become exercisable until at least six months after grant. Option privileges under Incentive Stock Options shall expire unless exercised within three months from the date of separation, but no later than the date on which the option terminates. Option privileges under Non-Qualified Stock Options shall expire unless exercised within five years from the date of separation, but no later than the date on which the option terminates.

(h) DEATH OF OPTION HOLDER. Upon the death of an option holder, option privileges shall apply to those shares which were immediately purchasable at the time of death. Option privileges shall expire unless exercised by legal representatives or beneficiaries within one year after the date of the employee's or director's death, but no later than the date on which the option terminates.

#### VI. ACCELERATION OF EXERCISABILITY ON CHANGE OF CONTROL

Upon a Change of Control of the Company, all options theretofore granted and not previously exercisable shall become fully exercisable to the same extent and in the same manner as if they had become exercisable by passage of time in accordance with the provisions of the Plan relating to periods of exercisability and to termination of employment.

A "CHANGE OF CONTROL" shall be deemed to have occurred if:

(i) any individual, entity or firm becomes the beneficial owner of 40% or more of the outstanding common stock of the Company, provided, however, that such an event shall not constitute a Change of Control if such shareholder has entered into an agreement with the Company, approved by the Board, which materially restricts the right of such shareholder to direct or influence the management or policies of the Company; or

(ii) in any solicitation of proxies from the security holders of the Company, proxies are solicited by or on behalf of a person or entity other than the Board and, upon the conclusion of such solicitation, nominees of such person or entity are elected to one-half or more of the then available positions on the entire Board.

The merger or consolidation of the Company with any other entity shall not, as such, be regarded as a Change of Control for the purposes of this Plan. The effect of such a merger or consolidation shall be determined by the provisions of this Section.

#### VII. FAIR MARKET VALUE

"FAIR MARKET VALUE" shall mean the value of a share of common stock on a particular date, determined as follows: (i) if the common stock is not listed on such date on any national securities exchange, the average between the highest "bid" and lowest "offered" quotations of a share on such date (or, if none, on the most recent date on which there were bid and offered quotations of a share), as reported by the National Association of Securities Dealers Automated Quotation System, or other similar service selected by the Committee; (ii) if the common stock is neither listed on such date on a national securities exchange nor traded in the over-the-counter market, the fair market value of a share on such date as determined in good faith by the Committee; or (iii) if the common stock is listed on such date on one or more national securities exchanges, the last reported sale price of a share on such date as recorded on the composite tape system, or, if such system does not cover the common stock, the last reported sale price of a share on such date on the principal national securities exchange on which the common stock is listed or, if no sale of common stock took place on such date, the last reported sale price of a share on the most recent day on which a sale of a share took place as recorded by such system or on such exchange, as the case may be.

#### VIII. ADJUSTMENT IN THE EVENT OF RECAPITALIZATION

In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure of the Company, the Committee shall make such adjustments, if any, as are appropriate in the number and kind of shares authorized by the Plan, in the number and kind of shares covered by the options granted and in the option price.

#### IX. AMENDMENTS AND DISCONTINUANCE

The Board may discontinue the Plan at any time and may from time to time amend or revise the terms of the Plan as permitted by applicable statutes, except that it may not revoke or alter, in a manner unfavorable to the holders, any options then outstanding, or amend the Plan without shareholder approval so as to materially: (i) increase the benefits accruing to participants under the Plan; (ii) increase the number of securities which may be issued under the Plan; (iii) modify the requirements as to eligibility for participation in the Plan; or (iv) increase the cost of the Plan to the Company. In addition, Plan provisions relating to non-employee directors may not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974 (ERISA), or the rules thereunder.

X. COMPLIANCE WITH RULE 16b-3

With respect to persons subject to Section 16 of the Securities Exchange Act of 1934 (the "1934 ACT"), transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 1934 Act. To the extent any provisions of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, if permitted by law and deemed advisable by the Committee.

XI. EFFECTIVE DATE AND TERM OF THE PLAN

The 1994 Stock Option Plan shall become effective on July 1, 1994, subject to prior approval of the shareholders. No option shall be granted pursuant to this Plan after June 30, 1999. However, options theretofore granted may extend beyond that date in accordance with their terms and the provisions of the Plan.

[Graphic: map; FIRST MERCHANTS CORPORATION MARKET AREA]

#### STOCKHOLDER INFORMATION

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 \$818,000,000 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.

STOCK PRICE AND DIVIDEND INFORMATION

QUARTER	PRICE PER SHARE				DIVIDENDS DECLARED	
	HIGH		LOW		1993	1992
	1993	1992	1993	1992		
First Quarter	\$30.75	\$25.83	\$27.00	\$18.83	\$.22	\$.20
Second Quarter	29.00	25.33	26.50	23.00	.21	.21
Third Quarter	30.50	28.00	26.50	24.00	.25	.22
Fourth Quarter	31.25	30.00	29.00	26.00	.25	.22

The table above lists per share bid prices and dividend payments during 1992 and 1993, as adjusted for the 3-for-2 stock split of January, 1993.

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

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, 1993, the number of shares outstanding was 3,389,591. There were 1,046 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  
 Investor Services Officer  
 First Merchants Corporation  
 P.O. Box 792  
 Muncie, Indiana 47308-0792  
 317-747-1346  
 1-800-262-4261

MARKET MAKERS

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

The Chicago Corporation  
 Herzog, Heine, Geduld, Inc.  
 Howe, Barnes & Johnson, Inc.  
 McDonald and Company  
 David A. Noyes and Company  
 Raffensperger, Hughes & Co.  
 Sandler, O'Neill & Partners, L.P.

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, March 31, 1994, 3:30 p.m., at the Horizon Convention Center, 401 South High Street, Muncie, Indiana.



INDEPENDENT AUDITOR'S REPORT

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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, 1993 and 1992, 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, 1993 (pages 7-22). 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, 1993 and 1992, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1993, 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 income taxes in 1993.

GEO. S. OLIVE & CO.  
Indianapolis, Indiana  
January 21, 1994

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FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1993	1992	1991	1990	1989
<b>OPERATIONS</b>					
Net Interest Income					
Fully Taxable Equivalent Basis . . . . .	\$ 26,806	\$ 26,400	\$ 23,277	\$ 20,055	\$ 19,018
Less Tax Equivalent Adjustment . . . . .	1,298	1,190	1,320	983	715
Net Interest Income . . . . .	25,508	25,210	21,957	19,072	18,303
Provision for Loan Losses . . . . .	1,014	1,357	1,401	1,295	1,155
Net Interest Income					
After Provision for Loan Losses . . . . .	24,494	23,853	20,556	17,777	17,148
Total Other Income . . . . .	6,588	5,576	5,229	4,671	4,531
Total Other Expenses . . . . .	18,214	17,603	15,792	13,401	13,832
Income Before Income Tax Expense . . . . .	12,868	11,826	9,993	9,047	7,847
Income Tax Expense . . . . .	4,396	4,041	3,234	3,023	2,190
Income Before Change in Accounting Method . . . . .	8,472	7,785	6,759	6,024	5,657
Change in Accounting Method for Income Taxes . . . . .	227				
Net Income . . . . .	\$ 8,699	\$ 7,785	\$ 6,759	\$ 6,024	\$ 5,657
<b>PER SHARE DATA(1)</b>					
Income Before Change in Accounting Method . . . . .	\$ 2.48	\$ 2.30	\$ 2.09	\$ 1.90	\$ 1.77
Net Income . . . . .	2.55	2.30	2.09	1.90	1.77
Cash Dividends Paid . . . . .	.94	.85	.79	.71	.61
December 31 Book Value . . . . .	20.30	18.79	17.36	16.29	15.10
December 31 Market Value (BID PRICE) . . . . .	29.00	28.50	18.67	13.83	15.83
<b>AVERAGE BALANCES</b>					
Total Assets . . . . .	\$626,398	\$603,067	\$560,412	\$511,097	\$487,284
Total Loans . . . . .	357,028	329,750	300,276	272,122	263,548
Total Deposits . . . . .	517,826	501,526	441,302	408,804	398,645
Total Stockholders' Equity . . . . .	66,887	61,246	54,473	49,906	46,398
<b>YEAR-END BALANCES</b>					
Total Assets . . . . .	\$626,113	\$616,859	\$596,573	\$541,124	\$522,798
Total Loans . . . . .	376,872	350,308	323,382	287,787	270,082
Total Deposits . . . . .	506,302	511,971	484,824	429,675	407,621
Total Stockholders' Equity . . . . .	68,804	63,935	58,472	51,277	48,219
<b>FINANCIAL RATIOS</b>					
Return on Average Assets . . . . .	1.39%	1.29%	1.21%	1.18%	1.16%
Return on Average Stockholders' Equity . . . . .	13.01	12.71	12.41	12.07	12.19
Average Earning Assets to					
Total Assets . . . . .	93.71	93.93	93.82	93.55	92.86
Allowance for Loan Losses					
as % of Total Loans . . . . .	1.27	1.24	1.20	1.13	1.08
Dividend Payout Ratio . . . . .	36.86	36.96	37.79	37.37	34.46
Average Stockholders' Equity to					
Average Assets . . . . .	10.68	10.16	9.72	9.76	9.52
Tax Equivalent Yield on Earning Assets . . . . .	7.38	8.31	9.48	10.09	10.28
Cost of Supporting Liabilities . . . . .	2.81	3.65	5.05	5.90	6.08
Net Interest Margin on Earning Assets . . . . .	4.57	4.66	4.43	4.19	4.20

(1) Restated for 3-for-2 stock split distributed January, 1993.

The amounts include First United Bank, subsequent to its acquisition on July 31, 1991 (see Note 2 to Consolidated Financial Statements).

[Graphic; bar chart; Return on Average Assets]

[Graphic; bar chart; Return on Average Equity]

#### RESULTS OF OPERATION

Net income in 1993 reached \$8,699,000, exceeding 1992's figure of \$7,785,000 by 11.7 per cent. Earnings per share increased 10.9 per cent, from \$2.30 to \$2.55, compared with 1991 net income of \$2.09 per share.

Earnings per share for 1993 includes \$.07 per share resulting from the required adoption in the first quarter of Statement of Financial Accounting Standard No. 109 (SFAS No. 109), ACCOUNTING FOR INCOME TAXES, a non-recurring event. Operating earnings per share before this change were up 7.8 per cent for the year.

Return on assets, which exceeded 1 per cent for the first time in 1988, rose to 1.39 per cent, from 1.29 per cent in 1992 and 1.21 per cent in 1991.

Return on equity was 13.01 per cent in 1993, 12.71 per cent in 1992, and 12.41 per cent in 1991.

In 1993, First Merchants Corporation ("Corporation") recorded the eighteenth 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 10.99 per cent at year-end 1993 and 10.36 per cent at December 31, 1992. At December 31, 1993, the Corporation had a Tier I risk-based capital ratio of 16.36 per cent, total risk-based capital ratio of 17.53 per cent, and a leverage ratio of 10.41 per cent. Regulatory capital guidelines required a Tier I risk-based capital ratio of 4.0 per cent and a total risk-based capital ratio of 8.0 per cent by the end of 1992.

The Corporation has an employee stock purchase plan and an employee stock option plan. Activity under these plans is described in Note 12 to the Consolidated Financial Statements. The transactions under these plans have not had a material effect on the Corporation's capital position.

On December 14, 1993, the Board of Directors adopted the 1994 Stock Option Plan. Under the terms of the plan, 210,000 shares of Corporation common stock will be reserved 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 fully exercisable generally six months after the date of the grant, for a period of ten years. The 1994 Stock Option Plan is subject to stockholder approval.

On December 14, 1993, the Board of Directors adopted the 1994 Employee Stock Purchase Plan, subject to stockholder approval. A total of 112,500 shares of the Corporation's common stock are to be reserved for issuance pursuant to the plan. The terms of the plan are similar to the current stock purchase plan.

#### 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 reflects significant improvement in the Corporation's loan quality during 1992 and 1993.

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
1993 . . . . .	.28%	NA
1992 . . . . .	.41	1.87%
1991 . . . . .	.86	2.59
1990 . . . . .	1.09	2.62
1989 . . . . .	1.54	2.12

(1) Accruing loans past due 90 days or more, and non-accruing loans, but excluding restructured loans. December 31, 1993, peer group comparisons are not yet available.

At December 31, 1993, the allowance for loan losses was \$4,800,000, up 10.3 per cent from year end 1992. As a per cent of loans, the reserve was 1.27 per cent, up from 1.24 per cent at year end 1992.

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.

	1993	1992	1991	1990	1989
(DOLLARS IN THOUSANDS)					
Allowance for loan losses:					
Balance at January 1 . . . . .	\$4,351	\$3,867	\$3,254	\$2,915	\$2,739
Addition resulting from acquisition . . . . .	-----	-----	252	-----	-----
Chargeoffs:					
Commercial . . . . .	391	588	806	614	914
Real estate mortgage . . . . .	129	100	41	46	
Installment . . . . .	388	552	511	590	383
Total chargeoffs . . . . .	908	1,240	1,358	1,250	1,297
Recoveries:					
Commercial . . . . .	240	215	227	195	255
Real estate mortgage . . . . .	5	38	7	1	
Installment . . . . .	98	114	84	98	63
Total recoveries . . . . .	343	367	318	294	318
Net chargeoffs . . . . .	565	873	1,040	956	979
Provision for loan losses . . . . .	1,014	1,357	1,401	1,295	1,155
Balance at December 31 . . . . .	\$4,800	\$4,351	\$3,867	\$3,254	\$2,915
Ratio of net chargeoffs during the period to average loans outstanding during the period . . . . .	.16%	.26%	.35%	.35%	.37%
Peer Group . . . . .	NA	.63	.95	.93	.71

As a result of improved loan quality and a decline in net chargeoffs, the 1993 provision for loan losses at \$1,014,000 represented a \$343,000 decrease from 1992. The amount provided exceeded net chargeoffs by \$449,000.



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

The Corporation's liquidity and interest sensitivity position at December 31, 1993, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk. The table below represents the Corporation's interest rate sensitivity analysis as of December 31, 1993.

INTEREST-RATE SENSITIVITY ANALYSIS  
(DOLLARS IN THOUSANDS)

	AT DECEMBER 31, 1993				TOTAL
	1-180 DAYS	181-365 DAYS	1-5 YEARS	BEYOND 5 YEARS	
<b>Rate-Sensitive Assets:</b>					
Federal funds sold and interest-bearing time deposits . . . . .	\$ 1,879				\$ 1,879
Investment securities . . . . .	37,048	\$ 26,323	\$126,850	\$16,022	206,243
Loans . . . . .	213,913	44,659	85,646	32,653	376,871
Total rate-sensitive assets . . . . .	252,840	70,982	212,496	48,675	584,993
<b>Rate-Sensitive Liabilities:</b>					
Savings and time deposits . . . . .	223,406	22,505	185,845		431,756
Other borrowed funds . . . . .	46,890				46,890
Total rate-sensitive liabilities . . . . .	270,296	22,505	185,845		478,646
Interest rate sensitivity gap by period . . . . .	\$(17,456)	\$ 48,477	\$ 26,651	\$48,675	
Cumulative gap . . . . .	(17,456)	31,021	57,672	106,347	
Cumulative ratio at December 31, 1993 . . . . .	93.54%	110.59%	112.05%	122.22%	

EARNING ASSETS

Earning assets grew \$12.7 million during 1993 and \$16.7 million during 1992. The growth occurred primarily in loans with investment securities increasing slightly.

The following table presents the earnings asset mix for the years ended 1993, 1992, and 1991.

EARNING ASSETS  
(DOLLARS IN MILLIONS)

	1993	DECEMBER 31 1992	1991	1993 INCREASE (DECREASE) OVER 1992
Federal funds sold and interest-bearing time deposits . . . . .	\$ 1.9	\$ 25.7	\$ 22.9	\$(23.8)
Investment securities . . . . .	206.2	196.3	209.3	9.9
Loans . . . . .	376.9	350.3	323.4	26.6
Total . . . . .	\$585.0	\$572.3	\$555.6	\$ 12.7



DEPOSITS AND BORROWINGS

Total deposits increased \$27 million in 1992, or 5.6 per cent, and declined by \$5.7 million in 1993. Average deposits, however, grew \$16.3 million in 1993, up 3.3 per cent from the same figure in 1992. Borrowed funds (Federal funds purchased and repurchase agreements with customers) amounted to \$46.9 million at December 31, 1993, compared to \$37.1 million at December 31, 1992, and \$49.1 million at December 31, 1991.

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 tables below indicate that the Corporation's asset yields declined each year as interest rates in general have fallen. During the period of 1991-1992, interest costs declined by an even greater amount, and consequently net interest margins grew by nearly 25 basis points each year. Coupled with earning asset growth this resulted in growth in net interest income of more than \$3 million in both years.

In 1993, however, asset yields fell .93 per cent while interest expense declined .84 per cent, so margins declined slightly (.09 per cent). Earning assets grew 3.6 per cent in 1993, offsetting the decline in interest margins and accounting for the \$400,000 increase in net interest income on a fully taxable equivalent basis (FTE).

	INTEREST INCOME (FTE) AS A PER CENT OF AVERAGE EARNINGS ASSETS	INTEREST EXPENSE AS A PER CENT OF AVERAGE EARNING ASSETS	NET INTEREST INCOME (FTE) AS A PER CENT OF AVERAGE EARNING ASSETS
1993	7.38%	2.81%	4.57%
1992	8.31	3.65	4.66
1991	9.48	5.05	4.43
1990	10.09	5.90	4.19
1989	10.28	6.08	4.20

	NET INTEREST INCOME ON A FULLY TAXABLE EQUIVALENT BASIS	NET INTEREST MARGIN ON A FULLY TAXABLE EQUIVALENT BASIS	AVERAGE EARNING ASSETS
(DOLLARS IN THOUSANDS)			
1993	\$26,806	4.57%	\$587,009
1992	26,400	4.66	566,167
1991	23,277	4.43	525,799
1990	20,055	4.19	478,113
1989	19,018	4.20	453,098

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 \$6,588,000 in 1993, an increase of 18.2 per cent over the prior year. Most of the increase was experienced in the major categories:

1. Trust revenues grew \$180,000, or 8.1 per cent;
2. Service charges on deposit accounts were up by \$250,000, or 11.1 per cent;
3. Securities gains totalled \$395,000, an increase of \$328,000, or 493.4 per cent.

Other income in 1992 exceeded 1991 by \$347,000, or 6.6 per cent. Trust fees grew \$110,000, or 5.2 per cent, while service charges on deposit accounts increased by \$346,000, of which about \$129,000 is attributable to the acquisitions of First United Bank. Offsetting these increases was a decline in securities gains of \$125,000.



OTHER EXPENSE

Total "other expenses" represent non-interest operating expenses of the Corporation. Those expenses reached \$18,215,000 in 1993, up \$611,000 or 3.5 per cent, from 1992. Salary and benefit expenses increased by \$330,000, or 3.8 per cent, and premises and equipment expense rose \$254,000, or 12.8 per cent.

Such expenses grew nearly \$1,812,000 in 1992, or 11.5 per cent. Most of the increase is due to three factors:

1. Expenses at First United Bank, acquired in July, 1991, amounted to \$1,651,000 during the twelve months of 1992, compared to \$662,000 for the five-month period in 1991, an increase of \$989,000.

OTHER EXPENSE (CONTINUED)

2. Salary and benefit expense at the other two bank affiliates increased \$556,000, or 7.5 per cent.
3. F.D.I.C. insurance premiums increased \$117,000 at the bank affiliates, not including First United Bank.

On May 11, 1993, the Corporation and First Merchants Bank, N.A., ("First Merchants") approved a change in the data processing function. In the fourth quarter of 1993, First Merchants assumed responsibility for the data processing function for the Corporation and its wholly owned subsidiaries. The data processing agreement with an outside party to provide data processing management was terminated three months early. The estimated cost of the conversion, equipment, and software is approximately \$1,700,000. The equipment and software costs will be depreciated on a straight-line method based on the estimated useful lives of the assets. The Corporation expects data processing costs to decline under the new arrangement.

Management's expense control program is designed to ensure that dollars are spent where necessary, but wisely. This is accomplished through the assignment of accountability to individuals and divisions responsible for various expenses, along with the appropriate management information reports designed to monitor these expenses.

INCOME TAXES

The increase in 1993 tax expense of \$355,000 is attributable to a \$1,042,000 increase in net pre-tax income.

Income tax expense in 1992 exceeded 1991 by \$807,000. The increase in 1992 tax expense is attributable to a \$1,833,000 increase in pre-tax net income, and a decline in tax-free income from the prior year of \$250,000.

The following is a breakdown, by year, of federal and state income taxes:

FEDERAL AND STATE INCOME TAXES		
	1993	1992
Federal taxes	\$3,272,000	\$3,033,000
State taxes	1,124,000	1,008,000
Total	\$4,396,000	\$4,041,000

During 1993, the Company adopted Statement of Financial Accounting Standards No. 109 (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 in the income statement.

ACCOUNTING MATTERS

In May 1993, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 114 (SFAS No. 114), ACCOUNTING BY CREDITORS FOR IMPAIRMENT OF A LOAN. The Statement requires that impaired loans that are within the scope of SFAS No. 114 be measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate; at the loan's observable market price; or the fair value of the collateral, if the loan is collateral dependent. Adoption of SFAS No. 114 is required in January, 1995, with earlier adoption permitted. The Corporation has not determined the impact of SFAS No. 114 on its financial condition and results of operations, but expects it to be immaterial.

Also in May, 1993, the FASB issued Statement of Financial Accounting Standards No. 115 (SFAS No. 115), ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES. This Statement requires that investment securities be classified as either held-to-maturity securities, which are reported at amortized cost; trading securities, which are reported at fair value, with unrealized gains and losses included in earnings; or available-for-sale securities, which are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity. SFAS No. 115 was adopted as of January 1, 1994. At that date, securities with a carrying value of \$107,569,000 were reclassified as available for sale. This reclassification resulted in an increase in total stockholders' equity, net of tax, of \$644,000.

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	
	1993	1992
<b>ASSETS</b>		
Cash and due from banks . . . . .	\$ 24,942,428	\$ 29,546,181
Federal funds sold . . . . .	1,625,000	24,150,000
	-----	-----
Cash and cash equivalents . . . . .	26,567,428	53,696,181
Interest-bearing time deposits . . . . .	253,854	1,504,474
Investment securities (approximate market value \$209,301,000 and \$201,002,000) . . . . .	206,242,590	196,284,640
Loans:		
Loans, net of unearned interest . . . . .	376,871,651	350,307,536
Less: Allowance for loan losses . . . . .	4,800,366	4,351,118
	-----	-----
Net loans . . . . .	372,071,285	345,956,418
Premises and equipment . . . . .	9,440,635	7,596,850
Interest receivable . . . . .	5,664,780	5,892,408
Core deposit intangibles and goodwill . . . . .	2,107,771	2,238,949
Other assets . . . . .	3,764,616	3,688,981
	-----	-----
Total assets . . . . .	\$626,112,959	\$616,858,901
	-----	-----
<b>LIABILITIES</b>		
Deposits:		
Noninterest bearing . . . . .	\$ 74,546,331	\$ 72,132,365
Interest bearing . . . . .	431,755,835	439,839,134
	-----	-----
Total deposits . . . . .	506,302,166	511,971,499
Short-term borrowings . . . . .	46,890,127	37,073,000
Interest payable . . . . .	1,226,167	1,505,576
Other liabilities . . . . .	2,890,228	2,374,267
	-----	-----
Total liabilities . . . . .	557,308,688	552,924,342
	-----	-----
Commitments and contingent liabilities		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, no-par value:		
Authorized and uninsured--500,000 shares		
Common stock, \$.125 stated value:		
Authorized--20,000,000 shares		
Issued and outstanding--3,389,591 and 3,402,213 shares . . . . .	423,699	425,277
Additional paid-in capital . . . . .	17,068,603	17,683,626
Retained earnings . . . . .	51,311,969	45,825,656
	-----	-----
Total stockholders' equity . . . . .	68,804,271	63,934,559
	-----	-----
Total liabilities and stockholders' equity . . . . .	\$626,112,959	\$616,858,901
	-----	-----

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF INCOME

	YEAR ENDED DECEMBER 31		
	1993	1992	1991
<b>INTEREST INCOME</b>			
Loans, including fees:			
Taxable . . . . .	\$28,704,848	\$29,636,313	\$30,710,401
Tax exempt . . . . .	122,422	155,339	191,854
Investment securities:			
Taxable . . . . .	10,292,105	13,358,703	14,746,674
Tax exempt . . . . .	2,397,781	2,155,426	2,371,109
Federal funds sold . . . . .	453,805	475,065	386,312
Interest-bearing time deposits . . . . .	35,295	124,023	139,395
Total interest income . . . . .	42,006,256	45,904,869	48,545,745
<b>INTEREST EXPENSE</b>			
Deposits . . . . .	15,431,588	19,313,198	23,003,345
Short-term borrowings . . . . .	1,066,592	1,381,953	3,585,850
Total interest expense . . . . .	16,498,180	20,695,151	26,589,195
<b>NET INTEREST INCOME . . . . .</b>	<b>25,508,076</b>	<b>25,209,718</b>	<b>21,956,550</b>
Provision for loan losses . . . . .	1,013,765	1,356,536	1,401,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES . . . . .</b>	<b>24,494,311</b>	<b>23,853,182</b>	<b>20,555,550</b>
<b>OTHER INCOME</b>			
Trust fees . . . . .	2,408,632	2,228,936	2,118,819
Service charges on deposit accounts . . . . .	2,506,483	2,256,646	1,910,831
Other customer fees . . . . .	1,049,751	793,743	718,240
Investment securities gains, net . . . . .	394,551	66,488	191,683
Other operating income . . . . .	228,794	230,218	289,426
Total other income . . . . .	6,588,211	5,576,031	5,228,999
<b>OTHER EXPENSES</b>			
Salaries and employee benefits . . . . .	9,123,874	8,793,835	7,733,005
Net occupancy expenses . . . . .	1,096,771	1,000,987	1,033,024
Equipment expenses . . . . .	1,138,180	979,755	868,816
Computer processing fees . . . . .	1,176,957	1,341,464	1,227,514
Deposit insurance expense . . . . .	1,138,463	1,087,072	912,015
Printing and office supplies . . . . .	771,593	688,813	588,077
Marketing expense . . . . .	525,685	494,629	418,767
Other operating expenses . . . . .	3,243,368	3,217,229	3,010,478
Total other expenses . . . . .	18,214,891	17,603,784	15,791,696
<b>INCOME BEFORE INCOME TAX AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING METHOD . . . . .</b>	<b>12,867,631</b>	<b>11,825,429</b>	<b>9,992,853</b>
Income tax expense . . . . .	4,395,920	4,040,729	3,233,879
<b>INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING METHOD . . . . .</b>	<b>8,471,711</b>	<b>7,784,700</b>	<b>6,758,974</b>
<b>CUMULATIVE EFFECT OF CHANGE IN METHOD OF ACCOUNTING FOR INCOME TAXES . . . . .</b>	<b>227,329</b>		
<b>NET INCOME . . . . .</b>	<b>\$ 8,699,040</b>	<b>\$ 7,784,700</b>	<b>\$ 6,758,974</b>
<b>PER SHARE</b>			
Income before cumulative effect of change in accounting method . . . . .	\$ 2.48	\$ 2.30	\$ 2.09
Net income . . . . .	\$ 2.55	\$ 2.30	\$ 2.09
<b>WEIGHTED AVERAGE SHARES OUTSTANDING . . . . .</b>	<b>3,416,417</b>	<b>3,385,349</b>	<b>3,230,951</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.



CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
	SHARES	AMOUNT			
BALANCES, JANUARY 1, 1991. . . . .	2,098,032	\$262,254	\$14,280,680	\$36,734,190	\$51,277,124
Net income for 1991. . . . .				6,758,974	6,758,974
Cash dividends (\$1.18 per share) . . . . .				(2,562,126)	(2,562,126)
Stock issued in acquisition of First United Bank . . . . .	152,612	19,077	3,159,068		3,178,145
Stock issued under employee benefit plans. . . . .	9,024	1,128	180,085		181,213
Stock options exercised. . . . .	725	90	16,272		16,362
Stock redeemed . . . . .	(15,546)	(1,943)	(375,532)		(377,475)
BALANCES, DECEMBER 31, 1991. . . . .	2,244,847	280,606	17,260,573	40,931,038	58,472,217
Net income for 1992. . . . .				7,784,700	7,784,700
Cash dividends (\$1.28 per share) . . . . .				(2,890,082)	(2,890,082)
Stock issued under employee benefit plans. . . . .	9,499	1,187	189,564		190,751
Stock issued under dividend reinvestment and stock purchase plan. . . . .	4,787	599	185,130		185,729
Stock options exercised. . . . .	9,850	1,231	220,819		222,050
Stock redeemed . . . . .	(841)	(105)	(30,701)		(30,806)
Three-for-two stock split. . . . .	1,134,071	141,759	(141,759)		
BALANCES, DECEMBER 31, 1992. . . . .	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 (\$.94 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

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	1993	1992	1991
OPERATING ACTIVITIES:			
Net income . . . . .	\$ 8,699,040	\$ 7,784,700	\$ 6,758,974
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses. . . . .	1,013,765	1,356,536	1,401,000
Depreciation and amortization. . . . .	827,963	750,510	640,854
Deferred income tax. . . . .	(542,266)	(647,526)	(384,450)
Investment securities amortization, net. . . . .	987,365	868,416	310,739
Investment securities gains, net. . . . .	(394,551)	(66,488)	(191,683)

CONSOLIDATED STATEMENT OF CASH FLOWS

(CONTINUED)

	YEAR ENDED DECEMBER 31		
	1993	1992	1991
Net change in:			
Interest receivable . . . . .	\$ 191,612	\$ 1,246,585	\$ 521,341
Interest payable . . . . .	(279,409)	(509,719)	(494,365)
Other adjustments . . . . .	829,887	(86,524)	956,803
Net cash provided by operating activities . . . . .	11,333,406	10,696,490	9,519,213
INVESTING ACTIVITIES:			
Net change in interest-bearing time deposits . . . . .	1,250,620	2,147	2,748,745
Purchases of investment securities . . . . .	(120,299,746)	(97,182,863)	(103,486,420)
Proceeds from investment securities maturities . . . . .	104,327,097	104,880,500	62,454,510
Proceeds from investment securities sales . . . . .	5,430,571	4,506,249	40,633,000
Net change in loans . . . . .	(27,530,846)	(28,659,226)	(9,291,680)
Purchases of premises and equipment . . . . .	(2,642,213)	(1,374,976)	(1,083,442)
Cash and cash equivalents of bank acquired, net of cash paid . . . . .			2,510,922
Other investing activities . . . . .	683,511	698,700	1,147,395
Net cash used by investing activities . . . . .	(38,781,006)	(17,129,469)	(4,366,970)
FINANCING ACTIVITIES:			
Net change in:			
Noninterest-bearing, NOW, money market and savings deposits . . . . .	12,890,301	31,562,748	7,065,771
Certificates of deposit and other time deposits . . . . .	(18,559,253)	(4,392,319)	3,716,749
Short-term borrowings . . . . .	9,817,127	(11,990,228)	(7,189,699)
Cash dividends . . . . .	(3,212,727)	(2,890,082)	(2,562,126)
Stock issued under employee benefit plans . . . . .	247,763	190,751	181,213
Stock issued under dividend reinvestment and stock purchase plan . . . . .	286,949	185,729	
Stock options exercised . . . . .	154,385	222,050	16,362
Stock redeemed . . . . .	(1,301,438)	(30,806)	(377,475)
Cash paid in lieu of issuing fractional shares . . . . .	(4,260)		
Net cash provided by financing activities . . . . .	318,847	12,857,843	850,795
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .	(27,128,753)	6,424,864	6,003,038
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR . . . . .	53,696,181	47,271,317	41,268,279
CASH AND CASH EQUIVALENTS, END OF YEAR . . . . .	\$ 26,567,428	\$ 53,696,181	\$ 47,271,317
ADDITIONAL CASH FLOWS INFORMATION:			
Interest paid . . . . .	\$ 16,777,589	\$ 21,204,870	\$ 27,083,560
Income tax paid . . . . .	5,004,469	4,615,519	3,610,326

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.



(TABLE DOLLAR AMOUNTS IN THOUSANDS)

NOTE 1  
ACCOUNTING POLICIES

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

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

DESCRIPTION OF BUSINESS--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.

INVESTMENT SECURITIES are carried at cost, adjusted for amortization of premiums and discounts, because management has the ability and intent to hold to maturity. Gains and losses on the sale of investment securities are determined on the specific-identification method.

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

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

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 these loans is then recognized as income when collected. 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 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.

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.

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 has adopted the provisions of Statement of Financial Accounting Standards No. 109 (SFAS No. 109), ACCOUNTING FOR INCOME TAXES, for 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. Common stock equivalents, consisting of shares issuable under employee benefit plans, were not included since their effect on dilution was insignificant.

RECLASSIFICATIONS of certain amounts in the 1992 and 1991 consolidated financial statements have been made to conform to the 1993 presentation.

(TABLE DOLLAR AMOUNTS IN THOUSANDS)

NOTE 2  
BUSINESS ACQUISITION

On July 31, 1991, the Corporation acquired 64,017 shares, or all of the common stock, of First United Bancorp, Inc., Middletown, Indiana, ("First United"). The Corporation issued 152,612 shares (prior to the 1993 stock split) of its common shares and \$2,482,944 as payment in cash for the stock and now owns all outstanding shares of First United. The acquisition has been accounted for as a purchase and, accordingly, the assets acquired (\$48,804,236) and liabilities assumed (\$44,699,506) have been recorded at their estimated fair values at date of acquisition. The excess of \$1,082,388 of the purchase price over estimated fair value of the underlying net assets is being amortized over a twenty-five year period from acquisition date. The operating results of First United from August 1, 1991, are included in the consolidated statement of income.

Pro forma information of the Corporation for the year ended December 31, 1991, is presented as if First United had been acquired on January 1 of that year (unaudited, dollars in thousands, except for per share data).

Net interest income.....	\$23,051
Net income.....	6,869
Net income per share.....	2.13

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, 1993, was \$8,965,000.

NOTE 4  
INVESTMENT SECURITIES

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	APPROXIMATE MARKET VALUE
Securities 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
Federal Reserve stock . . . . .	307			307
Federal Home Loan Bank Stock . . . . .	1,572			1,572
Corporate obligations . . . . .	36,959	581	87	37,453
Totals . . . . .	\$206,243	\$3,356	\$298	\$209,301
Securities at December 31, 1992:				
U.S. Treasury . . . . .	\$ 53,120	\$1,348	\$105	\$ 54,363
Federal agencies . . . . .	66,778	1,544	85	68,237
State and municipal . . . . .	33,203	911	76	34,038
Mortgage and other asset-backed securities . . . . .	16,073	508	2	16,579
Federal Reserve stock . . . . .	307			307
Corporate obligations . . . . .	26,804	710	36	27,478
Totals . . . . .	\$196,285	\$5,021	\$304	\$201,002

The amortized cost and estimated market value of investment securities at December 31, 1993, 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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE DOLLAR AMOUNTS IN THOUSANDS)

NOTE 4  
INVESTMENT SECURITIES (CONTINUED)

	AMORTIZED COST	APPROXIMATE MARKET VALUE
Maturity distribution at December 31, 1993:		
Due in one year or less . . . . .	\$ 45,950	\$ 46,485
Due after one through five years . . . . .	120,210	122,233
Due after five through ten years . . . . .	13,246	13,594
Due after ten years . . . . .	1,268	1,294
	-----	-----
	180,674	183,606
Mortgage and other asset-backed securities . . . . .	23,690	23,816
Federal Reserve stock . . . . .	307	307
Federal Home Loan Bank stock . . . . .	1,572	1,572
	-----	-----
Totals . . . . .	\$206,243	\$209,301
	-----	-----

Securities with a total amortized cost of approximately \$77,758,000 and \$88,977,000 were pledged at December 31, 1993 and 1992, to secure certain deposits and for other purposes as permitted or required by law.

Proceeds from sales of investments in debt securities during 1993, 1992, and 1991 were \$5,431,000, \$4,506,000, and \$40,633,000. Gross gains of \$395,000, \$115,000, and \$288,000, and gross losses of \$550, \$49,000 and \$96,000 were realized on those sales.

NOTE 5  
LOANS AND ALLOWANCE

	1993	1992
Loans at December 31:		
Commercial and industrial loans . . . . .	\$ 76,760	\$ 70,959
Bankers' acceptances and loans to financial institutions . . . . .	3,000	9,496
Agricultural production financing and other loans to farmers . . . . .	5,591	6,240
Real estate loans:		
Construction . . . . .	8,127	2,619
Commercial and farmland . . . . .	58,235	52,402
Residential . . . . .	150,572	140,526
Individuals' loans for household and other personal expenditures . . . . .	70,347	60,625
Tax-exempt loans . . . . .	1,474	2,402
Other loans . . . . .	2,766	5,039
	-----	-----
Total loans . . . . .	\$376,872	\$350,308
	-----	-----

	1993	1992	1991
Allowance for loan losses:			
Balances, January 1 . . . . .	\$4,351	\$3,867	\$3,254
Addition resulting from acquisition . . . . .			252
Provision for losses . . . . .	1,014	1,357	1,401
Recoveries on loans . . . . .	343	367	318
Loans charged off . . . . .	(908)	(1,240)	(1,358)
	-----	-----	-----
Balances, December 31 . . . . .	\$4,800	\$4,351	\$3,867
	-----	-----	-----
Nonperforming loans at December 31:			
Nonaccruing loans . . . . .	\$ 527	\$ 493	\$1,434
Loans contractually past due 90 days or			

more other than nonaccruing . . . . .	616	949	1,356
Restructured loans . . . . .	879	548	828

(CONTINUED)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE DOLLAR AMOUNTS IN THOUSANDS)

NOTE 5  
LOANS AND ALLOWANCE (CONTINUED)

Additional interest income of \$39,000 for 1993, \$80,000 for 1992, and \$148,000 for 1991, 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 Corporation's banking subsidiaries 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 follows:

Balances, December 31, 1992 . . . . .	\$ 13,153
Changes in composition of related parties . . . . .	(428)
New loans, including renewals . . . . .	12,226
Payments, etc., including renewals. . . . .	(11,894)
Balances, December 31, 1993 . . . . .	\$ 13,057

NOTE 6  
PREMISES AND EQUIPMENT

	1993	1992
Cost at December 31:		
Land . . . . .	\$ 955	\$ 903
Buildings and leasehold improvements . . . . .	8,694	8,482
Equipment. . . . .	9,457	7,371
Total cost. . . . .	19,106	16,756
Accumulated depreciation . . . . .	9,665	9,159
Net . . . . .	\$9,441	\$7,597

The Corporation is committed under various noncancelable lease contracts for certain subsidiary office facilities. Total lease expense for 1993, 1992, and 1991 was \$110,000, \$89,000, and \$104,000, respectively. The future minimum rental commitments required under the operating leases in effect at December 31, 1993, expiring at various dates through the year 2016, follow for the years ending December 31:

1994. . . . .	\$ 96
1995. . . . .	83
1996. . . . .	78
1997. . . . .	75
1998. . . . .	65
After 1998. . . . .	430
Total future minimum obligations. . . . .	\$827



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE DOLLAR AMOUNTS IN THOUSANDS)

NOTE 7  
DEPOSITS

	1993	1992
Deposits at December 31:		
Noninterest bearing . . . . .	\$ 74,546	\$ 72,132
NOW accounts . . . . .	88,539	85,161
Money market deposit accounts. . . . .	95,258	92,058
Savings deposits . . . . .	52,759	48,860
Certificates and other time deposits of \$100,000 or more . . . . .	38,423	41,849
Other certificates and time deposits . . . . .	156,777	171,911
Total deposits. . . . .	\$506,302	\$511,971

NOTE 8  
SHORT-TERM BORROWINGS

	1993	1992
Short-term borrowings at December 31:		
Federal funds purchased. . . . .	\$ 5,300	
Securities sold under repurchase agreements. . . . .	26,363	\$27,340
U.S. Treasury demand notes . . . . .	15,227	9,733
Total short-term borrowings. . . . .	\$46,890	\$37,073

NOTE 9  
INCOME TAX

	1993	1992	1991
Income tax expense:			
Currently payable:			
Federal. . . . .	\$ 3,576	\$ 3,632	\$ 2,734
State. . . . .	1,135	1,056	884
Deferred:			
Federal. . . . .	(304)	(598)	(342)
State. . . . .	(11)	(49)	(42)
Total income tax expense . . . . .	\$ 4,396	\$ 4,041	\$ 3,234
Deferred provision (benefit) relating to:			
Provision for loan losses. . . . .		\$ (469)	\$ (327)
Deferred loan fees . . . . .		(115)	(90)
Other. . . . .		(63)	33
Deferred benefit . . . . .		\$ (647)	\$ (384)
Reconciliation of federal statutory to actual tax expense:			
Federal statutory income tax at 34%. . . . .	\$ 4,375	\$ 4,021	\$ 3,398
Tax-exempt interest. . . . .	(759)	(696)	(742)
Effect of state income taxes . . . . .	742	665	556
Other. . . . .	38	51	22
Actual tax expense . . . . .	\$ 4,396	\$ 4,041	\$ 3,234
Deferred tax benefit at December 31. . . . .		\$ 1,615	\$ 968





(TABLE DOLLAR AMOUNTS IN THOUSANDS)

NOTE 9  
INCOME TAX (CONTINUED)

Tax expense applicable to investment security sales for the years ended December 31, 1993, 1992, and 1991, was \$156,000, \$27,000, and \$65,000, respectively.

A cumulative deferred tax asset of \$2,157,486 is included in other assets. At December 31, 1993, the components of the asset are as shown in the table below.

No valuation allowance at December 31, 1993, was considered necessary.

During 1993, the Company adopted Statement of Financial Accounting Standards No. 109 (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.

Differences in accounting for other real estate. . . . .	\$ 6
Differences in depreciation methods. . . . .	(446)
Differences in accounting for loans and investment securities. . . . .	(43)
Differences in accounting for loan fees. . . . .	431
Differences in accounting for loan losses. . . . .	2,004
Deferred compensation. . . . .	269
Differences in accounting for pensions and other employee benefits. . . . .	74
State income tax . . . . .	(163)
Other . . . . .	25
	-----
Total. . . . .	\$ 2,157
	-----
	-----
Assets . . . . .	\$ 2,855
Liabilities. . . . .	(698)
	-----
Total. . . . .	\$ 2,157
	-----
	-----

(TABLE DOLLAR AMOUNTS IN THOUSANDS)

NOTE 10  
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:

	1993	1992
Commitments to extend credit	\$63,529	\$72,135
Standby letters of credit	2,420	2,940

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 11  
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, 1993, available for 1994 dividends to the Corporation is \$10,327,000. As a practical matter, the subsidiaries restrict dividends to a lesser amount because of the need to maintain an adequate capital structure.

Total net assets (stockholder's equity) of all subsidiaries at December 31, 1993, was \$67,727,000, of which \$57,400,000 was restricted from dividend distribution to the Corporation.

On November 12, 1991, the Board of Directors approved the 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 on the applicable dividend payment that began with the first quarter of 1992 dividend payment. At December 31, 1993, 282,962 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.

(TABLE DOLLAR AMOUNTS IN THOUSANDS)

NOTE 12  
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 \$56,000 for 1993, \$64,000 for 1992, and \$69,000 for 1991.

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

	1993	1992
Actuarial present value of:		
Accumulated benefit obligation including vested benefits of \$8,100 and \$6,458. . . . .	\$ 8,279	\$ 6,603
Projected benefit obligation for service rendered to date. . . . .	\$(10,116)	\$(8,166)
Plan assets at fair value, primarily interest-bearing deposits and corporate bonds and securities . . . . .	10,013	9,332
Plan assets in excess of (less than) projected benefit obligation . . . .	(103)	1,166
Unrecognized net (gain) loss from experience different than that assumed. . . . .	837	(202)
Unrecognized prior service cost. . . . .	(59)	(66)
Unrecognized net asset at January 1, 1987, being recognized over 15 years . . . . .	(859)	(1,026)
Accrued pension cost included in the balance sheet . . . . .	\$ (184)	\$ (128)

	1993	1992	1991
Pension expense includes the following components:			
Service cost--benefits earned during the year. . . . .	\$ 389	\$ 336	\$ 292
Interest cost on projected benefit obligation. . . . .	619	569	549
Actual return on plan assets . . . . .	(1,072)	(1,000)	(829)
Net amortization and deferral. . . . .	120	159	57
	\$ 56	\$ 64	\$ 69

	1993	1992	1991
Assumptions used in the accounting as of December 31 were:			
Discount rate. . . . .	6.85%	7.75%	8.0%
Rate of increase in compensation . . . . .	4.5%	5.0%	5.0%
Expected long-term rate of return on assets. . . . .	8.75%	8.5%	8.5%

(TABLE DOLLAR AMOUNTS IN THOUSANDS)

NOTE 12  
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 the grant, for a period of ten years. There were 337 shares available for grant at December 31, 1993.

On December 14, 1993, the Board of Directors adopted the 1994 Stock Option Plan. Under the terms of the plan, 210,000 shares of Corporation common stock will be reserved 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. The 1994 Stock Option Plan is subject to stockholder approval.

	1993	1992	1991
Shares under option after restatement for stock split:			
Outstanding at beginning of year . . . . .	75,600	71,175	49,237
Adjustment for fractional shares . . . . .	(4)		
Granted during the year . . . . .	20,100	19,200	23,025
Expired during the year . . . . .	(1,500)		
Exercised during the year . . . . .	(9,299)	(14,775)	(1,087)
Outstanding at end of year . . . . .	84,897	75,600	71,175
Exercisable at end of 1993 . . . . .	65,097		
Average option price at end of year . . . . .	\$ 20.58	\$ 18.48	\$ 15.65
Price of options exercised			
Low . . . . .	\$ 13.66	\$ 13.66	\$ 13.66
High . . . . .	\$ 25.83	\$ 17.00	\$ 16.17

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 11,817 shares in 1993 at \$20.96667 per share. The market value per share on the purchase date was \$28.25. At December 31, 1993, 58,331 shares of common stock were reserved for purchase under the plan, and \$135,321 has been deducted from compensation, plus interest, toward the purchase of shares after June 30, 1994, the end of the annual offering period.

On December 14, 1993, the Board of Directors adopted the 1994 Employee Stock Purchase Plan, subject to stockholder approval. The total of 112,500 shares of the Corporation's common stock are to be reserved for issuance pursuant to the plan. The terms of the plan are similar to the 1989 Employee Stock Purchase Plan.

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 \$52,395 for 1993, \$61,700 for 1992 and \$40,200 for 1991.

In December, 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106 (SFAS No. 106), EMPLOYERS' ACCOUNTING FOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS. SFAS No. 106 requires the accrual of health care and life insurance benefits during the years that employees render the service.

The Corporation does not provide health care and life insurance benefits to retired employees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE DOLLAR AMOUNTS IN THOUSANDS)

NOTE 13  
FAIR VALUES OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107 (SFAS No. 107), DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS, requires that the Corporation disclose estimated fair values for its financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which quoted market rates are not available. Disclosure of fair values for financial instruments with quoted market rates are included elsewhere in the notes to the financial statements.

The fair values of cash and cash equivalents, interest-bearing deposits, short-term borrowings, loan commitments and standby letters of credit are estimated to be equal to their carrying value and are not included below.

For 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 values for other loans are estimated using discounted cash flow analyses that apply interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

The fair values of noninterest-bearing and interest-bearing, NOW, money market deposit and savings accounts are equal to the amount payable on demand at the balance sheet date. The fair values for certificates of deposit and other time deposits are estimated using discounted cash flow calculations that apply interest rates currently being offered for deposits to a schedule of aggregated expected monthly maturities on such time deposits.

	1993		1992	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Loans at December 31:				
Commercial loans . . . . .	\$155,313	\$155,880	\$131,263	\$132,841
Real estate loans . . . . .	138,225	141,399	126,832	134,899
Installment loans . . . . .	61,110	61,412	48,786	49,116
Other short-term loans . . . . .	22,224	22,224	43,427	43,427
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Total loans . . . . .	\$376,872	\$380,915	\$350,308	\$360,283
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Time deposits at December 31:				
Certificates of deposit . . . . .	\$156,850	\$157,748	\$183,065	\$186,262
Other time deposits . . . . .	38,350	38,482	30,695	30,695
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Total time deposits . . . . .	\$195,200	\$196,230	\$213,760	\$216,957
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE DOLLAR AMOUNTS IN THOUSANDS)

NOTE 14  
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	
	1993	1992
<b>Assets</b>		
Cash on deposit . . . . .	\$ 342	\$ 620
Investment in subsidiaries. . . . .	67,657	62,432
Goodwill. . . . .	749	786
Other assets. . . . .	179	97
Total assets. . . . .	\$68,927	\$63,935
<b>Liabilities</b>		
Other liabilities . . . . .	\$ 123	
Total liabilities . . . . .	123	
<b>Stockholders' equity</b>		
Common stock. . . . .	424	\$ 425
Additional paid-in capital. . . . .	17,068	17,684
Retained earnings . . . . .	51,312	45,826
Total stockholders' equity. . . . .	68,804	63,935
Total liabilities and stockholders' equity. . . . .	\$68,927	\$63,935

CONDENSED STATEMENT OF INCOME

	DECEMBER 31		
	1993	1992	1991
<b>Income</b>			
Dividends from subsidiaries . . . . .	\$ 3,571	\$ 2,890	\$ 5,473
Other income. . . . .		1	
Total income. . . . .	3,571	2,891	5,473
<b>Expenses</b>			
Amortization of core deposit intangibles, goodwill, and fair value adjustments. . . . .	19	4	(8)
Other expenses. . . . .	100	212	
Total expenses. . . . .	119	216	(8)
Income before income tax, equity in undistributed income of subsidiaries and cumulative effect of change in accounting method . . . .	3,452	2,675	5,481
Income tax benefit. . . . .	(40)	(79)	
Income before equity in undistributed income of subsidiaries and cumulative effect of change in accounting method . . . .	3,492	2,754	5,481
Equity in undistributed income of subsidiaries. . . . .	5,225	5,031	1,278
Income before cumulative effect of change in accounting method . . . . .	8,717	7,785	6,759
Cumulative effect of change in method of accounting for income taxes . . .	(18)		
Net income . . . . .	\$ 8,699	\$ 7,785	\$ 6,759





NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 14  
CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY, CONTINUED)

CONDENSED STATEMENT OF CASH FLOWS

	1993	DECEMBER 31 1992	1991
Operating activities:			
Net income . . . . .	\$ 8,699	\$ 7,785	\$ 6,759
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization . . . . .	19	4	(8)
Equity in undistributed income of subsidiaries . . . . .	(5,225)	(5,031)	(1,278)
Net change in:			
Other assets . . . . .	(64)	(19)	
Other liabilities . . . . .	123		
Net cash provided by operating activities . . . . .	3,552	2,739	5,473
Investing activities:			
Payment for purchase of First United . . . . .			(2,556)
Net cash used by investing activities . . . . .			(2,556)
Financing activities:			
Cash dividends . . . . .	(3,213)	(2,890)	(2,562)
Stock issued under employee benefit plans . . . . .	247	191	181
Stock issued under dividend reinvestment and stock purchase plan . . . . .	287	186	
Stock options exercised . . . . .	154	222	16
Stock redeemed . . . . .	(1,301)	(31)	(377)
Cash paid in lieu of issuing fractional shares . . . . .	(4)		
Net cash used by financing activities . . . . .	(3,830)	(2,322)	(2,742)
Net increase (decrease) in cash on deposit . . . . .	(278)	417	175
Cash on deposit, beginning of year . . . . .	620	203	28
Cash on deposit, end of year . . . . .	\$ 342	\$ 620	\$ 203

NOTE 15  
QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth certain quarterly results for the years ended December 31, 1993 and 1992:

QUARTER ENDED	INTEREST INCOME	NET INTEREST INCOME	PROVISION FOR LOAN LOSSES	NET INCOME	AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE
March, 1993 . . . . .	\$10,593	\$ 6,254	\$ 269	\$2,282	3,407,803	\$ .67
June, 1993 . . . . .	10,707	6,475	270	2,319	3,411,165	.68
September, 1993 . . . . .	10,327	6,276	243	2,014	3,426,651	.59
December, 1993 . . . . .	10,379	6,503	232	2,084	3,420,050	.61
	\$42,006	\$25,508	\$1,014	\$8,699	3,416,417	\$2.55
March, 1992 . . . . .	\$11,931	\$ 6,307	\$ 301	\$1,984	3,369,593	\$ .59
June, 1992 . . . . .	11,590	6,255	328	2,044	3,376,214	.61
September, 1992 . . . . .	11,285	6,233	338	1,799	3,394,959	.53
December, 1992 . . . . .	11,099	6,415	390	1,958	3,400,631	.57
	\$45,905	\$25,210	\$1,357	\$7,785	3,385,349	\$2.30



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
Daleville	Delaware
Eaton	Delaware
Pendleton	Madison
Edgewood	Madison
Ingalls	Madison
Lapel	Madison
Markleville	Madison
Middletown	Henry
Sulphur 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)

YEAR	1991	1992	1993
Return on Average Assets	1.21%	1.29%	1.39%

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

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 Bar chart: RETURN ON AVERAGE EQUITY

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

RETURN ON AVERAGE EQUITY (per cent)			
YEAR	1991	1992	1993
Return on Average Equity	12.41%	12.71%	13.01%

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

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 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)			
YEAR	1991	1992	1993
Net Loan Losses			
First Merchants Corporation	.35%	.26%	.16%
Peer Group	.95%	.63%	NA

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