FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 or 15 (d) of THE

SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1998

Commission File Number 0-17071

First Merchants Corporation

(Exact name of registrant as specified in its charter)

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

200 East Jackson Street - Muncie, IN	47305-2814
(Address of principal executive office)	(Zip code)

(765) 747-1500

(Registrant's telephone number, including area code)

Not Applicable

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

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

Yes X No ___

As of May 1, 1998, there were outstanding 6,683,255 common shares, without par value, of the registrant.

The exhibit index appears on page 19.

This report including the cover page contains a total of 21 pages.

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX

FIRST MERCHANTS CORPORATION

FORM 10-Q

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

	March 31, 1998	December 31, 1997
ASSETS:		
Cash and due from banks	$ 30,576	$ 33,127
Federal funds sold	10,200	9,050
Cash and cash equivalents	40,776	42,177
Interest-bearing deposits	362	385
Investment securities available for sale	217,813	212,040
Investment securities held to maturity	29,684	35,332
Mortgage loans held for sale	536	471
Loans	701,658	703,313
Less: Allowance for loan losses	(6,819)	(6,778)
Net loans	694,839	696,535
Premises and equipment	15,601	15,382
Federal Reserve and Federal Home Loan Bank stock	3,373	3,373
Interest receivable	8,189	8,968
Core deposit intangibles and goodwill	1,592	1,625
Others assets	5,084	3,848
Total assets	$1,017,849	$1,020,136
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 98,678	$ 115,613
Interest-bearing	736,747	728,199
Total deposits	835,425	843,812
Short-term borrowings	25,054	26,829
Federal Home Loan Bank advances	24,671	20,700
Interest payable	3,655	3,615
Other liabilities	4,980	3,211
Total liabilities	893,785	898,167
STOCKHOLDERS' EQUITY:		
Preferred stock, no-par value:		
Authorized and unissued -- 500,000 shares		
Common stock, $.125 stated value:		
Authorized --- 20,000,000 shares		
Issued and outstanding -- 6,678,365 and 6,664,439 shares	835	833
Additional paid-in capital	24,385	24,140
Retained earnings	97,404	95,449
Accumulated other comprehensive income	1,440	1,547
Total stockholders' equity	124,064	121,969
Total liabilities and stockholders' equity	$ 1,017,849	$ 1,020,136

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31, 1998	1997
Interest Income:		
Loans receivable		
Taxable	$ 15,406	$ 13,793
Tax exempt	52	29
Investment securities:		
Taxable	2,343	2,949
Tax exempt	1,098	1,039
Federal funds sold	156	27
Deposits with financial institutions	3	3
Federal Reserve and Federal Home Loan Bank stock	64	44
Total interest income	19,122	17,884
Interest expense:		
Deposits	8,233	7,502
Short-term borrowings	380	708
Federal Home Loan Bank advances	357	133
Total interest expense	8,970	8,343
Net Interest Income	10,152	9,541
Provision for loan losses	411	287
Net Interest Income After Provision for Loan Losses	9,741	9,254
Other Income:		
Net realized gains (losses) on sales of available-for-sale securities	46	10
Other income	2,636	2,122
Total other income	2,682	2,132
Total other expenses	6,591	6,206
Income before income tax	5,832	5,180
Income tax expense	2,008	1,751
Net Income	$ 3,824	$ 3,429
Per share:		
Net Income:		
Basic	$ .57	$ .52
Diluted	.56	.51
Dividends	.28	.24

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended March 31, 1998	Three Months Ended March 31, 1997
Net Income	$ 3,824	$ 3,429
Other comprehensive income, net of tax:		
Unrealized losses on securities available for sale:		
Unrealized holding losses arising during the period	(134)	(936)
Less: Reclassification adjustment for gains included in net income	27	6
	(107)	(930)
Comprehensive income	$ 3,717	$ 2,499

FIRST MERCHANTS CORPORATION

FORM 10-Q

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollar amounts in thousands)

(Unaudited)

	1998	1997
Balances, January 1	$ 121,969	$ 112,687
Net income	3,824	3,429
Cash dividends	(1,869)	(1,585)
Net change in accumulated other comprehensive income	(107)	(930)
Stock issued under dividend reinvestment and stock purchase plan	145	175
Stock options exercised	102	14
Balances, March 31	$ 124,064	$ 113,790

See notes to consolidated condensed financial statements

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31, 1998	Three Months Ended March 31, 1997
Cash Flows From Operating Activities:		
Net income	$ 3,824	$ 3,429
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	411	287
Depreciation and amortization	465	443
Securities amortization, net	45	132
Securities losses (gains), net	(46)	(10)
Mortgage loans originated for sale	(2,452)	(700)
Proceeds from sales of mortgage loans	2,387	856
Change in interest receivable	779	438
Change in interest payable	40	100
Other adjustments	637	1,358
Net cash provided by operating activities	6,090	6,333
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	23	(81)
Purchases of		
Securities available for sale	(28,980)	(20,939)
Securities held to maturity	(90)	(1,151)
Proceeds from maturities of		
Securities available for sale	21,769	15,153
Securities held to maturity	5,717	6,675
Proceeds from sales of		
Securities available for sale	1,282	
Net change in loans	1,285	(19,961)
Purchases of premises and equipment	(929)	(424)
Other investing activities	245	8
Net cash provided (used) by investing activities	322	(20,720)

(continued)

FIRST MERCHANTS CORPORATION

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

	Three Months Ended March 31, 1998	1997
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	$ (16,935)	$ (23,014)
Certificates of deposit and other time deposits	8,548	10,456
Short-term borrowings	(1,775)	26,589
Federal Home Loan Bank advances	4,000	3,300
Repayment of Federal Home Loan Bank advances	(29)	
Cash dividends	(1,869)	(1,585)
Stock issued under dividend reinvestment and stock purchase plan	145	175
Stock options exercised	102	14
Net cash provided (used) by financing activities	(7,813)	15,935
Net Change in Cash and Cash Equivalents	(1,401)	1,548
Cash and Cash Equivalents, January 1	42,177	35,032
Cash and Cash Equivalents, March 31	$ 40,776	$ 36,580

See notes to consolidated condensed financial statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1. General

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

NOTE 2. Change in Methods of Accounting

REPORTING COMPREHENSIVE INCOME. During 1997, the Financial Accounting Standards Board ("FASB") issued Statement No. 130, REPORTING COMPREHENSIVE INCOME, establishing standards for the reporting of comprehensive income and its components in financial statements. Statement No. 130 is applicable to all entities that provide a full set of financial statements. Enterprises that have no items of other comprehensive income in any period presented are excluded from the scope of this Statement.

Statement No. 130 is effective for interim and annual periods beginning after December 15, 1997. The Corporation has adopted Statement No. 130 during fiscal the first quarter of 1998. See the Consolidated Condensed Statement of Comprehensive Income on page 5.

FIRST MERCHANTS CORPORATION

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

NOTE 3. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at March 31, 1998:				
U.S. Treasury	$ 18,939	$ 109	$ 5	$ 19,043
Federal agencies	61,727	334	36	62,025
State and municipal	72,000	1,693	21	73,672
Mortgage-backed securities	46,348	346	77	46,617
Other asset-backed securities	413	1	41	373
Corporate obligations	15,747	112	26	15,833
Marketable equity security	250			250
Total available for sale	215,424	2,595	206	217,813
Held to maturity at March 31, 1998:				
U.S. Treasury	249		2	247
Federal agencies	2,007	3	1	2,009
State and municipal	22,412	223		22,635
Mortgage-backed securities	1,222	5	1	1,226
Other asset-backed securities	3,794	7	125	3,676
Total held to maturity	29,684	238	129	29,793
Total investment securities	$ 245,108	$ 2,833	$ 335	$ 247,606

(Table dollar amounts in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 1997:				
U.S. Treasury	$ 19,207	$ 104	$ 11	$ 19,300
Federal agencies	66,783	405	48	67,140
State and municipal	67,842	1,815	28	69,629
Mortgage-backed securities	36,682	362	86	36,958
Other asset-backed securities	487	2	54	435
Corporate obligations	18,219	139	30	18,328
Marketable equity securities	250			250
Total available for sale	209,470	2,827	257	212,040
Held to maturity at December 31, 1997:				
U.S. Treasury	249		2	247
Federal agencies	3,412	6	1	3,417
State and municipal	26,206	252	2	26,456
Mortgage-backed securities	1,255	4	1	1,258
Other asset-backed securities	4,210	7	166	4,051
Total held to maturity	35,332	269	172	35,429
Total investment securities	$ 244,802	$3,096	$429	$247,469

FIRST MERCHANTS CORPORATION

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

NOTE 4. Loans and Allowance

	March 31, 1998	December 31, 1997
Loans:		
Commercial and industrial loans	$ 150,572	$ 148,281
Bankers' acceptances and loans to financial institutions	1,880	705
Agricultural production financing and other loans to farmers	15,651	16,764
Real estate loans:		
Construction	21,579	21,389
Commercial and farmland	95,128	97,503
Residential	288,694	287,072
Individuals' loans for household and other personal expenditures	123,965	125,706
Tax-exempt loans	2,533	2,598
Other loans	2,026	3,782
Unearned interest on loans	(370)	(487)
Total	$ 701,658	$ 703,313

	Three Months Ended March 31 1998	1997
Allowance for loan losses:		
Balances, January 1	$ 6,778	$ 6,622
Provision for losses	411	287
Recoveries on loans	110	249
Loans charged off	(480)	(275)
Balances, March 31	$ 6,819	$ 6,883

NOTE 5. Net Income Per Share

	Period Ended March 31, 1998 Income	Weighted-Average Shares	Per Share Amount	1997 Income	Weighted-Average Shares	Per Share Amount
Basic net income per share:						
Net income available to common stockholders	$3,824	6,670,027	$ .57	$3,429	6,605,012	$ .52
Effect of dilutive stock options		120,906			87,962	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions	$3,824	6,790,933	$ .56	$3,429	6,692,974	$ .51

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

The Corporation's financial data for periods prior to mergers accounted for as pooling of interests has been restated.

RESULTS OF OPERATIONS

The Corporation has recorded 22 consecutive years of growth in diluted earnings per share, reaching $2.14 in 1997, an increase of 8.1 percent over 1996.

Return on assets rose to 1.45 percent in 1997, from 1.41 percent in 1996, and 1.35 percent in 1995.

Return on equity, was 12.28 percent in 1997, 12.16 percent in 1996, and 12.17 percent in 1995.

Following are the levels achieved in each of these ratios during the first quarter of 1998, as compared to the same period in 1997.

- Diluted earnings per share were $.56, up 9.8 percent from $.51
- Return on assets was 1.51 percent increasing from 1.42 percent
- Return on equity totaled 12.43 percent compared to 12.11 percent for the first three months of 1997

CAPITAL

The Corporation's capital strength continues to exceed regulatory minimums and peer group averages. Management believes that strong capital is a distinct advantage in the competitive environment in which the Corporation operates and will provide a solid foundation for continued growth.

The Corporation's Tier I capital to average assets ratio was 11.9 percent at year-end 1997 and 12.0 percent at March 31, 1998. At March 31, 1998, the Corporation had a Tier I risk-based capital ratio of 17.4 percent, total risk-based capital ratio of 18.4 percent, and a leverage ratio of 12.0 percent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 percent and a total risk-based capital ratio of 8.0 percent. Banks with Tier I risk-based capital ratios of 6.0 percent and total risk-based capital ratios of 10.0 percent are considered "well capitalized."

ASSET QUALITY/PROVISION FOR LOAN LOSSES

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

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

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

The following table summarizes the risk elements for the Corporation.

(Dollars in Thousands)	March 31, 1998	December 31, 1997	December 31, 1996
Non-accrual loans	$ 935	$ 1,410	$ 2,777
Loans contractually past due 90 days or more other than nonaccruing	2,140	1,972	1,699
Restructured loans	508	282	1,540
Total	$ 3,583	$ 3,664	$ 6,016

The reduction in non-performing loans from periods December 31, 1996, to December 31, 1997, is primarily attributable to two loans. One in the amount of $1,000,000 was removed from non-accrual status and one in the amount of $651,000 was removed from restructured status.

Impaired loans included in the table above, totaled $2,551,000 at December 31, 1997. An allowance for losses at December 31, 1997, was not deemed necessary for impaired loans totaling $1,075,000, but an allowance of $407,000 was recorded for the remaining balance of impaired loans of $1,476,000. The average balance of impaired loans for 1997 was $3,414,000. Impaired loans were $1,942,000 at March 31, 1998.

At December 31, 1997, the allowance for loan losses was $6,778,000, up slightly from year end 1996. As a percent of loans, the allowance was .96 percent, down from 1.05 percent at year end 1996. The decline in the allowance ratio is attributable to significant loan growth.

The provision for loan losses in 1997 was $1,297,000 compared to $1,253,000 in 1996.

At March 31, 1998, the allowance for loan losses increased by $41,000 to $6,819,000, or .97 percent of total loans. The first quarter 1998 provision of $411,000 was up from $287,000 for the same quarter in 1997. Net charge-offs amounted to $370,000 during the period.

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

	3 Months Ended March 31,	Year Ended December 31,		
	1998	1997	1996	1995
	(Dollars in Thousands)			
Allowance for loan losses:				
Balance at beginning of period	$6,778	$6,622	$6,696	$6,603
Chargeoffs	480	1,609	1,636	1,554
Recoveries	110	468	309	259
Net chargeoffs	370	1,141	1,327	1,295
Provision for loan losses	411	1,297	1,253	1,388
Balance at end of period	$6,819	$6,778	$6,622	$6,696
Ratio of net chargeoffs during the period to average loans outstanding during the period	.21%(1)	.17%	.23%	.24%
Peer Group	N/A	.29%	.26%	.27%

(1) First three months annualized

FIRST MERCHANTS CORPORATION

FORM 10-Q

LIQUIDITY, INTEREST SENSITIVITY, AND DISCLOSURES ABOUT MARKET RISK

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

The Corporation's liquidity and interest sensitivity position at March 31, 1998, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk. The table below presents the Corporation's interest rate sensitivity analysis as of March 31, 1998.

INTEREST-RATE SENSITIVITY ANALYSIS
At March 31, 1998
(Dollars in Thousands)

	1-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
Rate-Sensitive Assets:					
Federal funds sold and interest-bearing deposits	$ 10,562				$ 10,562
Investment securities	43,318	$ 45,154	$128,089	$ 30,936	247,497
Loans	286,346	78,300	255,835	81,713	702,194
Federal Reserve and Federal Home Loan Bank stock	2,976			397	3,373
Total rate-sensitive assets.	343,202	123,454	383,924	113,046	963,626
Rate-Sensitive Liabilities:					
Interest bearing deposits	318,961	103,879	313,334	573	736,747
Borrowed funds	25,054				25,054
Federal Home Loan Bank advances	294	4,144	15,428	4,805	24,671
Total rate-sensitive liabilities	344,309	108,023	328,762	5,378	786,472
Interest rate sensitivity gap by period	(1,107)	15,431	55,162	107,668	
Cumulative rate sensitivity gap	(1,107)	14,324	69,486	177,154	177,154
Cumulative rate sensitivity gap ratio March 31, 1998	99.7%	103.2%	108.9%	122.5%	

The Corporation had a cumulative positive gap of $14,324,000 in the one year horizon at March 31, 1998, or just over 1 percent of total assets. Net interest income at a financial institution with a positive gap tends to increase when rates rise and generally decrease as interest rates decline.

It is the objective of the Corporation to monitor and manage risk exposure to net interest income caused by changes in interest rates. It is the goal of the Corporation's Asset Liability function to provide optimum and stable net interest income. To accomplish this, management uses two asset liability tools. GAP/Interest Rate Sensitivity Reports and Net Interest Income Simulation Modeling are both constructed, presented, and monitored quarterly.

The GAP/Interest Rate Sensitive Report is a tool which displays repricing timing differences between interest sensitive assets and liabilities. The Corporation elects to categorize its non-maturity deposits as all to reprice in 13 months. The 181-365 day Sensitivity Gap Ratio depicts the institution is asset sensitive (103.2%).

The Corporation places its greatest credence in net interest income simulation modeling. The GAP/Interest Rate Sensitivity Report is known to have two major shortfalls. The GAP/Interest Rate Sensitivity Report fails to precisely gauge how often an interest rate sensitive product reprices nor is it able to measure the magnitude of potential future rate movements.

The simulation modeling product used by the Corporation is a personal computer based system known as Asset Liability Model System (ALMS) supported by Alltel, Inc., of Little Rock, AK. The system provides software sophisticated enough to measure; basis risk, yield curve risk, option risk, and interest rate risk. More specifically the software considers yield curve changes, prepayment speeds, caps, floors, and allows the user to tie different products to different interest rate drivers which can be assumed to change at different speeds and magnitudes.

The Corporation's asset liability process monitors simulated net interest income under three separate interest rate scenarios; rising (rate shock), falling (rate shock) and flat. Net Interest income is simulated over an 18 month horizon. By policy, the difference between the best performing and the worst performing rate scenarios are not allowed to show a variance greater than 10 percent.

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

	Rising	Falling
Prime	300 Basis Points	(300) Basis Points
Federal Funds	300	(300)
90 Day T-Bill	310	(275)
One Year T-Bill	290	(255)
Three Year T-Note	290	(235)
Five Year T-Note	290	(215)
Ten Year T-Note	290	(195)
Interest Checking	100	(67)
MMIA Savings	150	(100)
Money Market Index	292	(259)
Regular Savings	100	(67)

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

	Flat/Base	Rising	Falling
Net Interest Income (Dollars in Thousands)	$ 59,730	$ 59,544	$ 58,669
Change vs. Flat/Base Scenario		(186)	(1,061)
Percent Change		(.31)%	(1.81)%

EARNING ASSETS

The following table presents the earning asset mix for the years ended 1997 and 1996 and at March 31, 1998.

Loans grew by more than $72 million from December 31, 1996, to December 31, 1997, while investment securities declined. This reflects the Corporation's strategy to change the balance sheet mix to emphasize loans which generally carry higher yields than investment securities and often provide collateral business. (Maturities in the investment portfolio helped fund the loan growth.) There were no material changes in the level or mix of earning assets during the first quarter of 1998.

EARNING ASSETS
(Dollars in Millions)

	March 31, 1998	December 31, 1997	December 31, 1996
Federal funds sold and interest-bearing deposits	$ 10.6	$ 9.4	$ 1.4
Investment securities available for sale	217.8	212.0	228.4
Investment securities held to maturity	29.7	35.3	47.2
Mortgage loans held for sale	0.5	0.5	0.3
Loans	701.7	703.3	631.4
Federal Reserve and Federal Home Loan Bank stock	3.4	3.4	3.1
Total	$ 963.7	$ 963.9	$ 911.8

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

The following table presents the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements with customers, U.S. Treasury demand notes and Federal Home Loan Bank advances) for the years ended 1997 and 1996 and at March 31, 1998.

DEPOSITS, SHORT-TERM BORROWINGS AND
FEDERAL HOME LOAN BANK ADVANCES
(Dollars in Millions)

	March 31, 1998	December 31, 1997	December 31, 1996
Deposits	$ 835.4	$ 843.8	$ 794.5
Short-term borrowings	25.1	26.8	45.0
Federal Home Loan Bank advances	24.7	20.7	9.2

NET INTEREST INCOME

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

The table below presents the Corporation's asset yields, interest expense, and net interest income as a percent of average earning assets for the three-year period ending in 1997 and the first quarter of 1998.

Asset yields improved .14 percent (FTE) in 1997, due primarily to a shift in the Corporation's asset mix (a larger percentage in higher-yielding loans, and a smaller percentage in investments.)

Interest costs rose by a similar amount (.12 percent) resulting in a .02 percent increase in net interest income (FTE) as a percent of average earnings assets. This "spread" increase accounted for only a small portion of the growth in net interest income. Most of the $2.9 million increase is attributable to growth in earning assets which exceeded $60 million.

Net interest income increased 2.3 percent (annualized) during the first quarter of 1998. Most of the increase is attributable to growth in earning assets.

(Dollars in Thousands)

	Interest Income (FTE) as a Percent of Average Earning Assets	Interest Expense as a Percent of Average Earning Assets	Net Interest Income (FTE) as a Percent of Average Earning Assets	Average Earning Assets	Net Interest Income on a Fully Taxable Equivalent Basis
For the three months ended March 31,					
1998	8.23 %	3.74 %	4.49 %	$959,958	$ 43,084
1997	8.05	3.64	4.41	917,774	40,464
For the year ended December 31,					
1997	8.27	3.79	4.48	941,351	42,139
1996	8.13	3.67	4.46	880,729	39,258

Average earning assets include the average balance of securities classified as available for sale, computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.

OTHER INCOME

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

Other income in 1997 amounted to $9,229,000, or 10.6 percent higher than in 1996. The increase of $887,000 is primarily attributable to the following factors:

1. Revenues from fiduciary activity grew $388,000, or 13.1 percent, due to strong new business activity and markets.

2. Service charges on deposit accounts increased $341,000, or 11.3 percent, due to account growth and some minor price adjustments.

3. Personal money order agent fees increased $71,000, or 14.6 percent, due to increased sales volume.

Other income in the first quarter of 1998 exceeded the same quarter in the prior year by $550,000, or 25.8 percent.

Three major areas account for most of the increase:

1. Revenues from fiduciary activities grew $186,000, or 23.5 percent, due to strong new business activity and markets.
2. Service charges on deposit accounts increased $62,000, or 7.4 percent, due to account growth and some minor price adjustments.
3. Other customer fees as a whole increased $118,000, or 25.8 percent, due to an increased ATM network, increased sales volume of personal money order agent fees, and increased pricing.

OTHER EXPENSE

Total "other expenses" represent non-interest operating expenses of the Corporation. Those expenses amounted to $25,748,000 in 1997, an increase of 6.7 percent from the prior year, or $1,613,000.

Four major areas account for most of the increase:

1. Salary and benefit expenses, which account for over one-half of the Corporation's non-interest operating expenses, grew by $889,000, or 6.6 percent, due to normal salary increases and staff additions.
2. Equipment expenses increased $193,000, or 9.0 percent, reflecting the Corporation's efforts to improve efficiency and provide electronic service delivery to its customers.
3. Marketing expenses rose $145,000, or 20.5 percent, due to more aggressive product promotion.
4. Outside data processing fees grew by $176,000, or 19.5 percent, due to increased debit card, credit card, and trust activity.

First quarter other expense in 1998 exceeded the same quarter of the prior year by $385,000, or 6.2 percent.

Two major areas account for most of the increase:

1. Salaries and benefit expense grew $177,000, or 5.1 percent, due to normal salary increases and staff additions.
2. Equipment expense increased $68,000, or 12.1 percent, reflecting the Corporation's efforts to improve efficiency and provide electronic service delivery to its customers.

INCOME TAXES

1997 income tax expense increased by $602,000 due to a $1,833,000 increase in net pre-tax income, mitigated somewhat by a $514,000 increase in tax-exempt income. Likewise, the increase of $257,000 in the first quarter of 1998, as compared to the same period in 1997, results from a $652,000 increase in pre-tax net income, mitigated somewhat by a $82,000 increase in tax exempt income.

OTHER

The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, including the Corporation, and that address is (http://www.sec.gov).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required under this item is included as part of Management's Discussion and Analysis under the heading Liquidity, Interest Sensitivity, and Disclosures About Market Risk.

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

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

NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit No.:	Description of Exhibit:	Form 10-Q Page Number
27	Financial Data Schedule, Period Ending March 31, 1998	21

(b) Reports on Form 8-K:

No reports were filed on Form 8-K during the quarter ended March 31, 1998.

FIRST MERCHANTS CORPORATION

FORM 10-Q

SIGNATURES

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

FIRST MERCHANTS CORPORATION
(Registrant)

Date May 12, 1998 by /s/ Michael L. Cox

Michael L. Cox
Executive Vice President
and Director

Date May 12, 1998 by /s/ James L. Thrash

James L. Thrash
Chief Financial & Principal
Accounting Officer

9
1,000

3-MOS
DEC-31-1998
JAN-01-1998
MAR-31-1998
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362
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0
217,813
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29,793
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24,671
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1,017,849
15,458
3,441
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8,233
8,970
10,152
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5,832
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.56
4.49
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0
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480
110
6,819
6,819
0
0