FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 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 August 26, 1998, there were outstanding 10,078,994 common shares, without par value, of the registrant.

The exhibit index appears on page 2.

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

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FIRST MERCHANTS CORPORATION

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

	September 30, 1998	December 31, 1997
ASSETS:		
Cash and due from banks	$ 31,960	$ 33,127
Federal funds sold	2,200	9,050
Cash and cash equivalents	34,160	42,177
Interest-bearing deposits	289	385
Investment securities available for sale	289,348	212,040
Investment securities held to maturity	23,363	35,332
Mortgage loans held for sale	731	471
Loans	733,659	703,313
Less: Allowance for loan losses	(7,202)	(6,778)
Net loans	726,457	696,535
Premises and equipment	17,769	15,382
Federal Reserve and Federal Home Loan Bank stock	3,723	3,373
Interest receivable	9,396	8,968
Core deposit intangibles and goodwill	2,993	1,625
Others assets	5,650	3,848
Total assets	$1,113,879	$1,020,136
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 96,122	$ 115,613
Interest-bearing	764,466	728,199
Total deposits	860,588	843,812
Securities sold under repurchase agreements	78,302	15,398
Federal funds purchased and other short-term borrowings	7,405	11,431
Federal Home Loan Bank advances	29,704	20,700
Interest payable	3,876	3,615
Other liabilities	4,177	3,211
Total liabilities	984,052	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 -- 10,078,914 and 9,996,658 shares	1,260	1,250
Additional paid-in capital.	24,818	23,723
Retained earnings	101,207	95,449
Accumulated other comprehensive income	2,542	1,547
Total stockholders' equity	129,827	121,969
Total liabilities and stockholders' equity	$1,113,879	$1,020,136

See notes to consolidated condensed financial statements.

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

	Three Months Ended September 30, 1998	Three Months Ended September 30, 1997	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Interest Income:				
Loans receivable				
Taxable	$ 16,043	$ 15,288	$ 47,153	$ 44,004
Tax exempt	51	28	155	87
Investment securities:				
Taxable	2,701	2,588	7,475	8,395
Tax exempt	1,160	1,064	3,378	3,185
Federal funds sold	114		623	27
Deposits with financial institutions	3	6	13	12
Federal Reserve and Federal Home Loan Bank stock	73	68	206	196
Total interest income	20,145	19,042	59,003	55,906
Interest expense:				
Deposits	8,531	8,157	25,509	23,487
Securities sold under repurchase agreements	573	419	1,027	1,211
Federal funds purchased and other short-term borrowings	190	271	423	1,051
Federal Home Loan Bank advances	393	285	1,129	627
Total interest expense	9,687	9,132	28,088	26,376
Net Interest Income	10,458	9,910	30,915	29,530
Provision for loan losses	446	375	1,268	952
Net Interest Income After Provision for Loan Losses	10,012	9,535	29,647	28,578
Other Income:				
Net realized gains (losses) on sales of available-for-sale securities	68	(4)	119	(3)
Other income	2,889	2,295	8,266	6,758
Total other income	2,957	2,291	8,385	6,755
Total other expenses	6,966	6,486	20,358	19,104
Income before income tax	6,003	5,340	17,674	16,229
Income tax expense	2,112	1,804	6,161	5,557
Net Income	$ 3,891	$ 3,536	$ 11,513	$ 10,672
Per share:				
Net Income:				
Basic	$ .39	$ .35	$ 1.15	$ 1.07
Diluted	.38	.35	1.13	1.06
Dividends	.20	.19	.57	.51

See notes to consolidated condensed financial statements.

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

	Three Months Ended September 30, 1998	Three Months Ended September 30, 1997	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Net Income	$ 3,891	$ 3,536	$ 11,513	$ 10,672
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains arising during the period, net of income tax (732), (390), (616), and (291)	1,099	585	924	437
Less: Reclassification adjustment for gains (losses) included in net income, net of income tax (28), 2, (48), and 1	40	(2)	71	(2)
	1,139	583	995	435
Comprehensive income	$ 5,030	$ 4,119	$ 12,508	$ 11,107

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CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollar amounts in thousands)

(Unaudited)

	1998	1997
Balances, January 1	$121,969	$112,687
Net income	11,513	10,672
Cash dividends	(5,755)	(5,038)
Net change in accumulated other comprehensive income	995	435
Stock issued under employee benefit plans	384	292
Stock issued under dividend reinvestment and stock purchase plan	511	539
Stock options exercised	210	127
Balances, September 30	$129,827	$119,714

See notes to consolidated condensed financial statements

FIRST MERCHANTS CORPORATION

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

	Nine Months Ended September 30 1998	1997
Cash Flows From Operating Activities:		
Net income	$ 11,513	$ 10,672
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	1,268	952
Depreciation and amortization	1,466	1,312
Securities amortization, net	153	245
Securities losses (gains), net	(106)	3
Mortgage loans originated for sale	(5,982)	(3,849)
Proceeds from sales of mortgage loans	5,722	3,661
Change in interest receivable	(428)	(441)
Change in interest payable	261	344
Other adjustments	(1,352)	(191)
Net cash provided by operating activities	12,515	12,708
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	96	29
Purchases of		
Securities available for sale	(140,342)	(47,126)
Securities held to maturity	(90)	(1,760)
Proceeds from maturities of		
Securities available for sale	58,975	54,667
Securities held to maturity	11,834	12,649
Proceeds from sales of		
Securities available for sale	5,886	8,551
Net change in loans	(31,190)	(71,021)
Purchases of premises and equipment	(4,162)	(1,329)
Other investing activities	(1,547)	310
Net cash provided by investing activities	(100,540)	(45,030)

(continued)

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

	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	$ (19,491)	$ (27,487)
Certificates of deposit and other time deposits	36,267	22,402
Securities sold under repurchase agreements	62,904	15,322
Federal funds purchased and other short-term borrowings	(4,026)	12,443
Federal Home Loan Bank advances	9,062	9,550
Repayment of Federal Home Loan Bank advances	(58)	
Cash dividends	(5,755)	(5,038)
Stock issued under employee benefit plans	384	292
Stock issued under dividend reinvestment and stock purchase plan	511	539
Stock options exercised	210	127
Net cash provided by financing activities	80,008	28,150
Net Change in Cash and Cash Equivalents	(8,017)	(4,172)
Cash and Cash Equivalents, January 1	42,177	35,032
Cash and Cash Equivalents, September 30	$ 34,160	$ 30,860

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.

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

NOTE 3. Acquisitions

On August 20, 1998, the Corporation signed a definitive agreement to acquire all of the outstanding shares of Jay Financial Corporation, Portland, Indiana. Under terms of the agreement, the Corporation will issue approximately 1,099,000 shares of its common stock. The transaction will be accounted for under the pooling of interests method of accounting and is subject to approval by appropriate regulatory agencies. Although the Corporation anticipates that the merger will be consummated during the first quarter of 1999, there can be no assurance that the acquisition will be completed. At December 31, 1997, Jay Financial Corporation, had total assets and stockholders' equity of $104,977,000 and $13,627,000, respectively.

On October 27, 1998, the Corporation signed a definitive agreement to acquire all of the outstanding shares of Anderson Community Bank, Anderson, Indiana. Under terms of the agreement, the Corporation will issue approximately 811,000 shares of its common stock. The transaction will be accounted for under the pooling of interests method of accounting and is subject to approval by appropriate regulatory agencies. Although the Corporation anticipates that the merger will be consummated during the first quarter of 1999, there can be no assurance that the acquisition will be completed. At December 31, 1997, Anderson Community Bank had total assets and stockholders' equity of $62,836,000 and $6,448,000, respectively. The Anderson Community Bank will merge with Pendleton Banking Company, an affiliate bank of First Merchants Corporation, to form The Madison Community Bank.

NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at September 30, 1998:				
U.S. Treasury	$ 13,842	$ 125	$	$ 13,967
Federal agencies	60,385	832		61,217
State and municipal	81,864	2,666	1	84,529
Mortgage-backed securities	77,881	460	40	78,301
Other asset-backed securities	30,279		17	30,262
Corporate obligations	20,632	192	2	20,822
Marketable equity security	250			250
Total available for sale	285,133	4,275	60	289,348
Held to maturity at September 30, 1998:				
U.S. Treasury	249	5		254
Federal agencies	500	3		503
State and municipal	19,307	358	2	19,663
Mortgage-backed securities	1,017	6		1,023
Other asset-backed securities	2,290		46	2,244
Total held to maturity	23,363	372	48	23,687
Total investment securities	$ 308,496	$4,647	$ 108	$ 313,035

(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	40	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

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

NOTE 5. Loans and Allowance

	September 30, 1998	December 31, 1997
Loans:		
Commercial and industrial loans	$ 155,831	$ 148,281
Bankers' acceptances and loans to financial institutions	900	705
Agricultural production financing and other loans to farmers	19,741	16,764
Real estate loans:		
Construction	26,544	21,389
Commercial and farmland	95,254	97,503
Residential	306,652	287,072
Individuals' loans for household and other personal expenditures	123,856	125,706
Tax-exempt loans	2,509	2,598
Other loans	2,565	3,782
Unearned interest on loans	(193)	(487)
Total	$ 733,659	$ 703,313

	Nine Months Ended September 30 1998	1997
Allowance for loan losses:		
Balances, January 1.	$ 6,778	$ 6,622
Provision for losses	1,268	952
Recoveries on loans	286	386
Loans charged off	(1,130)	(1,175)
Balances, September 30	$ 7,202	$ 6,785

NOTE 6. Net Income Per Share

	Three Months Ended September 30, 1998			1997		
	Income	Weighted-Average Shares	Per Share Amount	Income	Weighted-Average Shares	Per Share Amount
Basic net income per share:						
Net income available to common stockholders	$3,891	10,071,921	$ .39	$3,536	9,974,990	$ .35
Effect of dilutive stock options		150,955			126,621	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions	$3,891	10,222,876	$ .38	$3,536	10,101,611	$ .35

	Nine Months Ended September 30, 1998			1997		
	Income	Weighted-Average Shares	Per Share Amount	Income	Weighted-Average Shares	Per Share Amount
Basic net income per share:						
Net income available to common stockholders	$11,513	10,033,964	$ 1.15	$10,672	9,936,864	$ 1.07
Effect of dilutive stock options		163,121			128,181	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions	$11,513	10,197,085	$ 1.13	$10,672	10,065,045	$ 1.06

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

FORWARD-LOOKING STATEMENTS

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

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

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 1998, was $3,891,000, compared to $3,536,000 earned in the same period of 1997, an increase of 10.0 percent. Diluted net income per share was $.38 for the three months ended September 30, 1998, compared to $.35 for the three months ended September 30, 1997, an increase of 8.6 percent.

Net income for the first nine months of 1998 was $11,513,000 compared to $10,672,000 earned in the same period of 1997, an increase of 7.9 percent. Diluted net income per share was $1.13 and $1.06 for the nine months ended September 30, 1998 and 1997, respectively, an increase of 6.6 percent.

The increase in earnings was primarily due to growth in earning assets and non-interest income. Net interest income increased $1,385,000 or 4.7 percent over the first nine months of 1997 due to growth in earning assets of 9.3 percent. Noninterest income increased $1,630,000 or 24.1 percent over the first nine months of 1997 due primarily to increased revenues from fiduciary activities and commission income.

Annualized returns on average assets and average shareholder's equity for quarter ended September 30, 1998 were 1.45 percent and 12.16 percent, respectively, compared with 1.42 percent and 11.96 percent for the same period of 1997. For the nine months ended September 30, 1998, annualized returns on average assets and shareholder's equity were 1.47 percent and 12.23 percent, respectively, compared to 1.44 percent and 12.29 percent for the same nine month period in 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 11.9 percent at September 30, 1998. At September 30, 1998, the Corporation had a Tier I risk-based capital ratio of 16.3 percent, total risk-based capital ratio of 17.2 percent, and a leverage ratio of 11.9 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)	September 30, 1998	December 31, 1997	December 31, 1996
Non-accrual loans	$ 1,377	$ 1,410	$ 2,777
Loans contractually past due 90 days or more other than nonaccruing	2,229	1,972	1,699
Restructured loans	418	282	1,540
Total	$ 4,024	$ 3,664	$ 6,016

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 totaled $2,562,000 at September 30, 1998. The average balance of impaired loans as of September 30, 1998 totaled $2,658,000.

At September 30, 1998, the allowance for loan losses increased by $424,000, to $7,202,000, up slightly from year end 1997. As a percent of loans, the allowance was .98 percent, up from .96 percent at year end 1997.

The third quarter 1998 provision of $446,000 was up from $375,000 for the same quarter in 1997. Net charge-offs amounted to $285,000 during the quarter. The provision of $1,268,000 for the nine months ended September 30, 1998 was up $316,000 from the same period in 1997. Net charge offs amounted to $844,000 during the first nine months of 1998.

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.

	Nine Months Ended September 30,		Year Ended December 31,		
	1998	1997	1997	1996	1995
	(Dollars in Thousands)				
Allowance for loan losses:					
Balance at beginning of period	$6,778	$6,622	$6,622	$6,696	$6,603
Chargeoffs	1,130	1,175	1,609	1,636	1,554
Recoveries	286	386	468	309	259
Net chargeoffs	844	789	1,141	1,327	1,295
Provision for loan losses	1,268	952	1,297	1,253	1,388
Balance at end of period	$7,202	$6,785	$6,778	$6,622	$6,696
Ratio of net chargeoffs during the period to average loans outstanding during the period	.16%(1)	.15%(1)	.17%	.23%	.24%
Peer Group	N/A	N/A	.29%	.26%	.27%

(1) First nine months annualized

LIQUIDITY, INTEREST SENSITIVITY, AND DISCLOSURES ABOUT MARKET RISK

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

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

The Corporation's liquidity and interest sensitivity position at September 30, 1998, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

The Corporation had a cumulative negative gap of $28,227,000 in the six month horizon at September 30, 1998, or just over 2.5 percent of total assets. Net interest income at a financial institution with a negative gap tends to decrease when rates rise and generally increase as interest rates decline.

The GAP/Interest Rate Sensitive Report is a tool which displays repricing timing differences between interest sensitive assets and liabilities. The 0-180 day Sensitivity Gap Ratio depicts the institution is liability sensitive 92.9 percent.

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

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

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

	Rising		Falling	
Prime	300	Basis Points	(300)	Basis Points
Federal Funds	300		(300)	
90 Day T-Bill	310		(275)	
One Year T-Bill	290		(270)	
Three Year T-Note	290		(265)	
Five Year T-Note	290		(255)	
Ten Year T-Note	290		(245)	
Interest Checking	100		(67)	
MMIA Savings	150		(100)	
Money Market Index	269		(266)	
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)	$61,385	$62,220	$58,912
Change vs. Flat/Base Scenario		385	(2,473)
Percent Change		1.36%	(4.03%)

EARNING ASSETS

The following table presents the earning asset mix as of September 30, 1998, and December 31, 1997, and December 31, 1996.

Loans grew by nearly $31 million from December 31, 1997, to September 30, 1998, while investment securities grew by more than $65 million during the same period.

EARNING ASSETS (Dollars in Millions)	September 30, 1998	December 31, 1997	December 31, 1996
Federal funds sold and interest-bearing deposits	$ 2.5	$ 9.4	$ 1.4
Investment securities available for sale	289.3	212.0	228.4
Investment securities held to maturity	23.4	35.3	47.2
Mortgage loans held for sale	.7	0.5	0.3
Loans	733.7	703.3	631.4
Federal Reserve and Federal Home Loan Bank stock	3.7	3.4	3.1
Total	$ 1,053.3	$ 963.9	$ 911.8

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

The following table presents the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements with customers, U.S. Treasury demand notes and Federal Home Loan Bank advances) for the years ended 1997 and 1996 and at September 30, 1998.

(Dollars in Millions)	September 30, 1998	December 31, 1997	December 31, 1996
Deposits	$ 860.6	$ 843.8	$ 794.5
Securities sold under repurchase agreements	78.3	15.4	20.0
Federal funds purchased and other short-term borrowings	7.4	11.4	25.0
Federal Home Loan Bank advances	29.7	20.7	9.2

The Corporation, in an attempt to leverage its large capital position, borrowed $51,000,000 in the form of repurchase agreements and pledged the acquired investment securities as collateral against the borrowings. The interest rate risk is included as part of the Corporation's interest simulation discussed in Management's Discussion and Analysis under the heading Liquidity, Interest Sensitivity, and Disclosures about Market Risk. The effect on the Corporation's capital ratios is minimal as the Corporation remains adequately capitalized.

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NET INTEREST INCOME

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

The table below presents the Corporation's asset yields, interest expense, and net interest income as a percent of average earning assets for the three months and nine months ended September 30, 1998 and 1997.

Net interest income (FTE) for the three months ended September 30, 1998 increased by $611,000, or 5.8 percent over the same period in 1997, due to an increase in earning assets of over $77 million. For the same period interest income and interest expense, as a percent of average earning assets, declined by .17 and .07 percent, respectively, due to a decline in interest rates and margin compression.

Net interest income for the nine months ended September 30, 1998 increased $1,524,000, or 4.9 percent over the same period in 1997, due to an increase in earning assets of $57 million. Net interest income (FTE), as a percent of average earning assets, during the same period declined .05 percent due primarily to declining interest rates and increased non-deposit funds.

(Dollars in Thousands)

	Interest Income (FTE) as a Percent of Average Earning Assets	Interest Expense as a Percent of Average Earning Assets	Net Interest Income (FTE) as a Percent of Average Earning Assets	Average Earning Assets	Net Interest Income on a Fully Taxable Equivalent Basis
For the three months ended September 30,					
1998	8.18%	3.81%	4.37%	$1,017,322	$ 11,110
1997	8.35	3.88	4.47	940,102	10,499
For the nine months ended September 30,					
1998	8.19	3.78	4.41	992,050	32,817
1997	8.22	3.76	4.46	935,023	31,293

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

Other income in the third quarter of 1998 exceeded the same quarter in the prior year by $666,000, or 29.1 percent.

Two major areas account for most of the increase:

1. Revenues from fiduciary activities grew $284,000, or 34.6 percent, due to strong new business activity and markets.
2. Commission income increased $274,000, due primarily to the acquisition of First Merchants Insurance Services, Inc., on April 1, 1998.

Other income for the nine months ended September 30, 1998 exceeded the same period in the prior year by $1,630,000, or 24.1 percent.

Two major areas account for most of the increase:

1. Revenues from fiduciary activities grew $670,000, or 27.7 percent, due to strong new business activity and markets.
2. Commission income increased $492,000, due to the acquisition of First Merchants Insurance Services, Inc., on April 1, 1998.
3. Other customer fees as a whole increased $265,000, or 18.4 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. Third quarter other expense in 1998 exceeded the same quarter of the prior year by $480,000, or 7.4 percent.

Two major areas account for most of the increase:

1. Salaries and benefit expense grew $394,000, or 11.0 percent, due to normal salary increases and staff additions.
2. Net occupancy expense grew $123,000, or 31.7 percent, due to increasing branch network.

Total "other expenses" represent non-interest operating expenses of the Corporation. Other expenses for the nine month period ended September 30, 1998 exceeded the same period of the prior year by $1,254,000, or 6.6 percent.

Two major areas account for most of the increase:

1. Salaries and benefit expense grew $803,000, or 7.6 percent, due to normal salary increases and staff additions.
2. Equipment expense increased $247,000, or 14.4 percent, reflecting the Corporation's efforts to improve efficiency and provide electronic service delivery to its customers.

Both the three months and nine months ended September 30, 1998 expenses are offset by a change from cash basis accounting for inventory to GAAP accounting. First Merchants Corporation reclassified approximately $200,000 of expenses into inventory.

INCOME TAXES

Income tax expense, for the three months ended September 30, 1998, increased by $308,000 over the same period in 1997, due to a $663,000 increase in pre-tax net income, mitigated somewhat by a $119,000 increase in tax-exempt income. Likewise, the increase of $604,000 for the nine months ended September 30, 1998, as compared to the same period in 1997, results from a $1,445,000 increase in pre-tax net income, mitigated somewhat by a $261,000 increase in tax exempt income.

YEAR 2000

The Corporation has conducted a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 Issue and has developed an implementation plan to resolve the issue. The Year 2000 Issue is the result of the computer programs being written using two digits rather than four to define the applicable year. Any of the Corporation's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations. The Corporation is utilizing both internal and external resources to identify, correct or reprogram and test the systems for the Year 2000 compliance. The corporation began the testing phase during the third quarter of 1998. The target date for the completion of core application testing is December 31, 1998.

The Corporation has contacted the companies that supply or service our material operations to certify that their respective computer systems are Year 2000 compliant. We have established a December 31, 1998 deadline for these companies to provide this certification, which should provide our service providers with adequate time to make their systems Year 2000 compliant. This deadline should also provide us sufficient time to identify and contract with alternative service providers to replace those providers who cannot certify that they are, or soon will be Year 2000 compliant. We do not expect the expense of such changes in suppliers or servicers to be material to our operations, financial condition, or results.

In addition to possible expenses related to our own systems and those of our service providers, we could incur losses if Year 2000 problems affect any of our depositors or borrowers. Such problems could include delayed loan payments due to Year 2000 problems affecting any of our significant borrowers or impairing the payroll systems of large employers in our market area. Because our loan portfolio to corporate and individual borrowers is diversified and our market area does not depend significantly upon one employer or industry, we do not expect any such Year 2000 related difficulties that may affect our depositors and borrowers to significantly affect our net earnings or cash flow.

Our Board of Directors review on a quarterly basis our progress in addressing Year 2000 issues. We believe that our costs related to upgrading our systems and software for Year 2000 compliance will not exceed $900,000. As of September 30, 1998, we have spent approximately $600,000 in connection with Year 2000 compliance, of the $600,000 approximately $550,000 has been capitalized as the Corporation replaces non-compliant systems. Although we believe we are taking the necessary steps to address the Year 2000 compliance issue, no assurances can be given that some problems will not occur or that we will not incur significant additional expenses in future periods.

OTHER

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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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 September 30, 1998	21

(b) Reports on Form 8-K:

A report on Form 8-K, dated August 11, 1998, was filed under report item number 5, concerning First Merchants Corporation's declaration of a 3-for-2 stock split effective October 23, 1998.

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SIGNATURES

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

FIRST MERCHANTS CORPORATION
(Registrant)

Date November 11, 1998 by /s/ Michael L. Cox

Michael L. Cox
President and Director

Date November 10, 1998 by /s/ James L. Thrash

James L. Thrash
Chief Financial & Principal
Accounting Officer

9
1,000

9-MOS
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JAN-01-1998
SEP-30-1998
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1.13
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286
7,202
7,202
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0