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 June 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 July 29, 1998, there were outstanding 6,713,498 common shares, without par value, of the registrant.

The exhibit index appears on page 18.

This report including the cover page contains a total of 20 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)

	June 30, 1998	December 31, 1997
ASSETS:		
Cash and due from banks	$ 35,650	$ 33,127
Federal funds sold	36,825	9,050
Cash and cash equivalents	72,475	42,177
Interest-bearing deposits	275	385
Investment securities available for sale	228,489	212,040
Investment securities held to maturity	26,878	35,332
Mortgage loans held for sale	203	471
Loans	719,013	703,313
Less: Allowance for loan losses	(7,041)	(6,778)
Net loans	711,972	696,535
Premises and equipment	17,098	15,382
Federal Reserve and Federal Home Loan Bank stock	3,723	3,373
Interest receivable	8,734	8,968
Core deposit intangibles and goodwill	3,039	1,625
Others assets	4,620	3,848
Total assets	$1,077,506	$1,020,136
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 119,938	$ 115,613
Interest-bearing	763,600	728,199
Total deposits	883,538	843,812
Short-term borrowings	36,222	26,829
Federal Home Loan Bank advances	24,671	20,700
Interest payable	3,742	3,615
Other liabilities	3,129	3,211
Total liabilities	951,302	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 -- 6,697,656 and 6,664,439 shares	837	833
Additional paid-in capital	24,633	24,140
Retained earnings	99,331	95,449
Accumulated other comprehensive income	1,403	1,547
Total stockholders' equity	126,204	121,969
Total liabilities and stockholders' equity	$1,077,506	$1,020,136

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended June 30, 1998	Three Months Ended June 30, 1997	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
Interest Income:				
Loans receivable				
Taxable	$ 15,704	$ 14,923	$ 31,110	$ 28,716
Tax exempt	52	30	104	59
Investment securities:				
Taxable	2,431	2,858	4,774	5,807
Tax exempt	1,120	1,082	2,218	2,121
Federal funds sold	353		509	27
Deposits with financial institutions	7	3	10	6
Federal Reserve and Federal Home Loan Bank stock	69	84	133	128
Total interest income	19,736	18,980	38,858	36,864
Interest expense:				
Deposits	8,745	7,828	16,978	15,330
Short-term borrowings	307	864	687	1,572
Federal Home Loan Bank advances	379	209	736	342
Total interest expense	9,431	8,901	18,401	17,244
Net Interest Income	10,305	10,079	20,457	19,620
Provision for loan losses	411	290	822	577
Net Interest Income After Provision for Loan Losses	9,894	9,789	19,635	19,043
Other Income:				
Net realized gains (losses) on sales of available-for-sale securities	5	(9)	51	1
Other income	2,741	2,360	5,377	4,463
Total other income	2,746	2,351	5,428	4,464
Total other expenses	6,801	6,431	13,392	12,618
Income before income tax	5,839	5,709	11,671	10,889
Income tax expense	2,041	2,002	4,049	3,753
Net Income	$ 3,798	$ 3,707	$ 7,622	$ 7,136
Per share:				
Net Income:				
Basic	$ .57	$ .56	$ 1.14	$ 1.08
Diluted	.56	.55	1.12	1.06
Dividends	.28	.24	.56	.48

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended June 30, 1998	Three Months Ended June 30, 1997	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
Net Income	$ 3,798	$ 3,707	$ 7,622	$ 7,136
Other comprehensive income, net of tax:				
Unrealized losses on securities available for sale:				
Unrealized holding gains (losses) arising during the period	(40)	787	(174)	(149)
Less: Reclassification adjustment for gains (losses) included in net income	3	(5)	30	1
	(37)	782	(144)	(148)
Comprehensive income	$ 3,761	$ 4,489	$ 7,478	$ 6,988

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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	7,622	7,136
Cash dividends	(3,741)	(3,176)
Net change in accumulated other comprehensive income	(144)	(148)
Stock issued under dividend reinvestment and stock purchase plan	329	345
Stock options exercised	169	67
Balances, June 30	$ 126,204	$ 116,911

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)

	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
Cash Flows From Operating Activities:		
Net income	$ 7,622	$ 7,136
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	822	577
Depreciation and amortization	945	887
Securities amortization, net	95	148
Securities losses (gains), net	(51)	(1)
Mortgage loans originated for sale	(3,551)	(1,762)
Proceeds from sales of mortgage loans	3,819	1,586
Change in interest receivable	234	(252)
Change in interest payable	127	313
Other adjustments	(673)	(194)
Net cash provided by operating activities	9,389	8,438
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	110	(191)
Purchases of		
Securities available for sale	(54,165)	(35,638)
Securities held to maturity	(90)	(1,301)
Proceeds from maturities of		
Securities available for sale	36,206	33,763
Securities held to maturity	8,487	9,271
Proceeds from sales of		
Securities available for sale	1,284	3,289
Net change in loans	(16,259)	(51,256)
Purchases of premises and equipment	(2,917)	(1,041)
Other investing activities	(1,594)	220
Net cash provided by investing activities	(28,938)	(42,884)

(continued)

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

	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	$ 4,325	$ (7,144)
Certificates of deposit and other time deposits	35,401	33,761
Short-term borrowings	9,393	4,083
Federal Home Loan Bank advances	4,000	7,550
Repayment of Federal Home Loan Bank advances	(29)	
Cash dividends	(3,741)	(3,176)
Stock issued under dividend reinvestment and stock purchase plan	329	345
Stock options exercised	169	67
Net cash provided by financing activities	49,847	35,486
Net Change in Cash and Cash Equivalents	30,298	1,040
Cash and Cash Equivalents, January 1	42,177	35,032
Cash and Cash Equivalents, June 30	$ 72,475	$ 36,072

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. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at June 30, 1998:				
U.S. Treasury	$ 18,919	$ 96	$ 3	$ 19,012
Federal agencies	62,597	332	22	62,907
State and municipal	77,302	1,651	18	78,935
Mortgage-backed securities	51,465	342	104	51,703
Other asset-backed securities	355		34	321
Corporate obligations	15,272	106	17	15,361
Marketable equity security	250			250
Total available for sale	226,160	2,527	198	228,489
Held to maturity at June 30, 1998:				
U.S. Treasury	249		1	248
Federal agencies	2,002	2		2,004
State and municipal	20,561	209		20,770
Mortgage-backed securities	1,149	6		1,155
Other asset-backed securities	2,917	5	61	2,861
Total held to maturity	26,878	222	62	27,038
Total investment securities	$ 253,038	$2,749	$260	$ 255,527

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

	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

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

NOTE 4. Loans and Allowance

	June 30, 1998	December 31, 1997
Loans:		
Commercial and industrial loans	$ 153,852	$ 148,281
Bankers' acceptances and loans to financial institutions	2,215	705
Agricultural production financing and other loans to farmers	19,574	16,764
Real estate loans:		
Construction	23,747	21,389
Commercial and farmland	94,634	97,503
Residential	294,564	287,072
Individuals' loans for household and other personal expenditures	124,642	125,706
Tax-exempt loans	2,589	2,598
Other loans	3,467	3,782
Unearned interest on loans	(271)	(487)
Total	$ 719,013	$ 703,313

	Six Months Ended June 30, 1998	1997
Allowance for loan losses:		
Balances, January 1	$ 6,778	$ 6,622
Provision for losses	822	577
Recoveries on loans	195	331
Loans charged off	(754)	(820)
Balances, June 30	$ 7,041	$ 6,710

NOTE 5. Net Income Per Share

	Quarter Ended March 31, 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	$3,798	6,683,287	$ .57	$3,707	6,618,723	$ .56
Effect of dilutive stock options		123,629			83,986	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions	$3,798	6,806,916	$ .56	$3,707	6,702,709	$ .55

	Period Ended June 30, 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	$7,622	6,676,657	$ 1.14	$7,136	6,611,867	$ 1.08
Effect of dilutive stock options		121,182			85,975	
Diluted net income per share: Net income available to common stockholders and assumed conversions	$7,622	6,797,839	$ 1.12	$7,136	6,697,842	$ 1.06

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

RESULTS OF OPERATIONS

Net income for the three months ended June 30, 1998, was $3,798,000, compared to $3,707,000 earned in the same period of 1997. Diluted net income per share was $.56 for the three months ended June 30, 1998, compared to $.55 for the three months ended June 30, 1997. Net income for the first six months of 1998 was $7,622,000 compared to $7,136,000 earned in the same period of 1997, an increase of 6.8 percent. Diluted net income per share was $1.12 and $1.06 for the six months ended June 30, 1998 and 1997, respectively.

The increase in earnings was primarily due to growth in earning assets and non-interest income. Net interest income increased $837,000 or 4.3 percent over the first six months of 1997 due to growth in earning assets of 6.8 percent.

Annualized returns on average assets and average shareholder's equity for quarter ended June 30, 1998 were 1.44 percent and 12.31 percent, respectively, compared with 1.49 percent and 12.85 percent for the same period of 1997. For the six months ended June 30, 1998, annualized returns on average assets and shareholder's equity were 1.48 percent and 12.40 percent, respectively, compared to 1.46 percent and 12.47 percent for the same six 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 June 30, 1998. At June 30, 1998, the Corporation had a Tier I risk-based capital ratio of 16.9 percent, total risk-based capital ratio of 17.9 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)	June 30, 1998	December 31, 1997	December 31, 1996
Non-accrual loans	$ 1,366	$ 1,410	$ 2,777
Loans contractually past due 90 days or more other than nonaccruing	1,322	1,972	1,699
Restructured loans	428	282	1,540
Total	$ 3,116	$ 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 $2,642,000 at June 30, 1998.

At June 30, 1998, the allowance for loan losses increased by $263,000, to $7,041,000, 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 second quarter 1998 provision of $411,000 was up from $290,000 for the same quarter in 1997. Net charge-offs amounted to $189,000 during the period. The provision of $822,000 for the six months ended June 30, 1998 was up $245,000 from the six months ended June 30, 1997. Net charge offs amounted to $559,000 during the first six 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.

	Six Months Ended June 30,	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	754	1,609	1,636	1,554
Recoveries	195	468	309	259
Net chargeoffs	559	1,141	1,327	1,295
Provision for loan losses	822	1,297	1,253	1,388
Balance at end of period	$7,041	$6,778	$6,622	$6,696
Ratio of net chargeoffs during the period to average loans outstanding during the period	.16%(1)	.17%	.23%	.24%
Peer Group	N/A	.29%	.26%	.27%

(1) First six 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 June 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 positive gap of $12,129,000 in the six month horizon at June 30, 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.

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 asset sensitive 103.2 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.

	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	289	(246)
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)	$ 61,881	$ 61,691	$ 59,978
Change vs. Flat/Base Scenario		(190)	(1,903)
Percent Change		(0.307)%	(3.075)%

EARNING ASSETS

The following table presents the earning asset mix for the years ended 1997 and 1996 and at June 30, 1998.

Loans grew by nearly $16 million from December 31, 1997, to June 30, 1998, while investment securities grew by more than $8 million during the same period.

EARNING ASSETS (Dollars in Millions)	June 30, 1998	December 31, 1997	December 31, 1996
Federal funds sold and interest-bearing deposits	$ 37.1	$ 9.4	$ 1.4
Investment securities available for sale	228.5	212.0	228.4
Investment securities held to maturity	26.9	35.3	47.2
Mortgage loans held for sale	.2	0.5	0.3
Loans	719.0	703.3	631.4
Federal Reserve and Federal Home Loan Bank stock	3.7	3.4	3.1
Total	$1,015.4	$ 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 June 30, 1998.

DEPOSITS, SHORT-TERM BORROWINGS AND FEDERAL HOME LOAN BANK ADVANCES (Dollars in Millions)	June 30, 1998	December 31, 1997	December 31, 1996
Deposits	$ 883.5	$ 843.8	$ 794.5
Short-term borrowings	36.2	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 six months ended June 30, 1997 and 1998. The years ended December 31, 1997 and 1998 are presented below as well.

Asset yield during the six months ended June 30, 1998 declined .10 percent (FTE) from the year ended December 31, 1997, due primarily to a continuing decline in interest rates.

During the same period interest costs declined .04 percent resulting in a .06 percent decline in net interest income (FTE) as a percent of average earnings assets. Most of the $1.3 million increase in Net Interest Income from December 31, 1997 to June 30, 1998 is attributable to growth in earning assets which exceeded $40 million.

(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 six months ended June 30,					
1998	8.17%	3.75%	4.42%	$981,681	$ 43,414
1997	8.16	3.70	4.46	932,441	41,588
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

Other income in the second quarter of 1998 exceeded the same quarter in the prior year by $395,000, or 16.8 percent.

Two major areas account for most of the increase:

1. Revenues from fiduciary activities grew $201,000, or 23.0 percent, due to strong new business activity and markets.

2. Other customer fees as a whole increased $114,000, or 25.5 percent, due to an increased ATM network, increased sales volume of personal money order agent fees, and increased pricing.

Other income for the six months ended June 30, 1998 exceeded the same period in the prior year by $964,000, or 21.6 percent.

Two major areas account for most of the increase:

1. Revenues from fiduciary activities grew $386,000, or 24.1 percent, due to strong new business activity and markets.
2. Other customer fees as a whole increased $231,000, or 25.6 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. Second quarter other expense in 1998 exceeded the same quarter of the prior year by $370,000, or 5.8 percent.

Two major areas account for most of the increase:

1. Salaries and benefit expense grew $233,000, or 6.6 percent, due to normal salary increases and staff additions.
2. Equipment expense increased $117,000, or 21.1 percent, reflecting the Corporation's efforts to improve efficiency and provide electronic service delivery to its customers.

Total "other expenses" represent non-interest operating expenses of the Corporation. Other expenses for the period ended June 30, 1998 exceeded the same period of the prior year by $774,000, or 6.1 percent.

Two major areas account for most of the increase:

1. Salaries and benefit expense grew $410,000, or 5.9 percent, due to normal salary increases and staff additions.
2. Equipment expense increased $185,000, or 16.6 percent, reflecting the Corporation's efforts to improve efficiency and provide electronic service delivery to its customers.

INCOME TAXES

Income tax expense, for the three months ended June 30, 1998, increased by $39,000 over the same period in 1997, due to a $130,000 increase in pre-tax net income, mitigated somewhat by a $60,000 increase in tax-exempt income. Likewise, the increase of $296,000 for the six months ended June 30, 1998, as compared to the same period in 1997, results from a $782,000 increase in pre-tax net income, mitigated somewhat by a $142,000 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. It is anticipated that all reprogramming efforts will be complete by December 31, 1998, allowing adequate time for testing.

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

At the April 17, 1998 Annual Meeting of Shareholders, the following matters were submitted to a vote of the shareholders.

Election of Directors - The following directors were elected for a term of three years.

	Vote Count For	Against	Abstained
Michael L. Cox	6,018,074.10	54,661.27	17,360.00
Norman M. Johnson	6,064,588.10	8,147.27	17,360.00
George A.Sissel	6,024,136.92	48,598.45	17,360.00
Robert M. Smitson	6,072,694.10	41.27	0.26

Selection of Independent Public Accountants - Geo. S. Olive & Co., LLC, Indianapolis, Indiana Votes For - 6,071,102.87, Votes Against - 15,195.31, Votes Abstained - 3,797.19.

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 June 30, 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	August 10, 1998	by /S/ Michael L. Cox
		Michael L. Cox Executive Vice President and Director
Date	August 10, 1998	by /s/ James L. Thrash
		James L. Thrash Chief Financial & Principal Accounting Officer

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1,000

6-MOS
DEC-31-1998
JAN-01-1998
JUN-30-1998
35,650
275
36,825
0
228,489
26,878
27,038
719,013
7,041
1,077,506
883,538
36,222
6,871
24,671
0
0
837
125,367
1,077,506
31,214
6,992
652
38,858
16,978
18,401
20,457
822
51
13,392
11,671
7,622
0
0
7,622
1.14
1.12
4.42
1,366
1,322
428
0
6,778
754
195
7,041
7,041
0
0