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, 1999

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 November 3, 1999, there were outstanding 12,051,283 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 22 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,	December 31,
ASSETS:		
Cash and due from banks	$ 37,566	$ 35,474
Federal funds sold	1,800	45,295
Cash and cash equivalents	39,366	80,769
Interest-bearing deposits	1,631	1,008
Investment securities available for sale	352,042	329,508
Investment securities held to maturity	15,772	21,709
Mortgage loans held for sale	183	776
Loans	976,303	890,356
Less: Allowance for loan losses	(10,153)	(9,209)
Net loans	966,150	881,147
Premises and equipment	19,954	18,963
Federal Reserve and Federal Home Loan Bank stock	5,638	4,455
Interest receivable	11,700	10,797
Core deposit intangibles and goodwill	2,949	3,141
Others assets	13,452	10,254
Total assets	$1,428,837	$1,362,527
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 134,974	$ 139,469
Interest-bearing	923,007	946,483
Total deposits	1,057,981	1,085,952
Borrowings	204,538	113,702
Interest payable	4,105	4,134
Other liabilities	5,460	4,848
Total liabilities	1,272,084	1,208,636
STOCKHOLDERS' EQUITY:		
Preferred stock, no-par value:		
Authorized and unissued -- 500,000 shares		
Common stock, $.125 stated value:		
Authorized --- 50,000,000 shares		
Issued and outstanding -- 12,050,374 and 11,975,955 shares	1,506	1,497
Additional paid-in capital	32,030	31,264
Retained earnings	125,969	118,919
Accumulated other comprehensive income (loss)	(2,752)	2,211
Total stockholders' equity	156,753	153,891
Total liabilities and stockholders' equity	$1,428,837	$1,362,527

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, 1999	Three Months Ended September 30, 1998	Nine Months Ended September 30, 1999	Nine Months Ended September 30, 1998
Interest Income:				
Loans receivable				
Taxable	$ 19,792	$ 19,347	$ 57,576	$ 56,562
Tax exempt	56	58	168	181
Investment securities:				
Taxable	4,075	2,890	11,564	8,017
Tax exempt	1,302	1,239	3,935	3,620
Federal funds sold	33	202	459	823
Deposits with financial institutions	7	4	41	15
Federal Reserve and Federal Home Loan Bank stock	115	103	323	294
Total interest income	25,380	23,843	74,066	69,512
Interest expense:				
Deposits	9,480	10,124	28,160	30,043
Borrowings	2,324	1,228	6,028	2,811
Total interest expense	11,804	11,352	34,188	32,854
Net Interest Income	13,576	12,491	39,878	36,658
Provision for loan losses	590	539	1,617	1,551
Net Interest Income After Provision for Loan Losses	12,986	11,952	38,261	35,107
Other Income:				
Net realized gains on sales of available-for-sale securities	12	72	169	127
Other income	3,722	3,221	10,757	9,195
Total other income	3,734	3,293	10,926	9,322
Total other expenses	9,235	8,187	27,413	23,851
Income before income tax	7,485	7,058	21,774	20,578
Income tax expense	2,622	2,499	7,619	7,212
Net Income	$ 4,863	$ 4,559	$ 14,155	$ 13,366
Per share:				
Net Income:				
Basic	$ .40	$ .38	$ 1.18	$ 1.12
Diluted	.40	.38	1.17	1.11
Dividends	.22	.20	.62	.57

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 September 30, 1999	Three Months Ended September 30, 1998	Nine Months Ended September 30, 1999	Nine Months Ended September 30, 1998
Net Income	$ 4,863	$ 4,559	$14,155	$13,366
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding (losses) gains arising during the period, net of income tax of $1,032, $(853), $3,241, $(761)	(1,562)	1,194	(5,064)	990
Less: Reclassification adjustment for gains included in net income, net of income tax $(5), $(29), $(68), $(51)	7	43	101	76
	(1,555)	1,237	(4,963)	1,066
Comprehensive income	$ 3,308	$ 5,796	$ 9,192	$14,432

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CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollar amounts in thousands)

(Unaudited)

	1999	1998
Balances, January 1	$ 153,891	$ 141,794
Net income	14,155	13,366
Cash dividends	(7,107)	(5,837)
Net change in accumulated other comprehensive income	(4,963)	1,066
Stock repurchased	(339)	
Stock issued under "employee" benefit plans	428	384
Stock issued under dividend reinvestment and stock purchase plan	511	511
Stock options exercised	177	288
Balances, September 30	$ 156,753	$ 151,572

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, 1999	1998
Cash Flows From Operating Activities:		
Net income	$ 14,155	$13,366
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	1,617	1,551
Depreciation and amortization	2,193	1,924
Securities amortization, net	266	214
Securities losses (gains), net	(169)	(127)
Mortgage loans originated for sale	(5,801)	(5,982)
Proceeds from sales of mortgage loans	6,394	5,722
Change in interest receivable	(903)	(721)
Change in interest payable	(29)	330
Other adjustments	705	(1,590)
Net cash provided by operating activities	18,428	14,687
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	(623)	(72)
Purchases of		
Securities available for sale	(146,666)	(147,113)
Securities held to maturity		(90)
Proceeds from maturities of		
Securities available for sale	97,389	63,389
Securities held to maturity	5,807	11,909
Proceeds from sales of		
Securities available for sale	17,339	7,393
Net change in loans	(86,620)	(44,032)
Purchases of premises and equipment	(2,965)	(4,772)
Other investing activities	(27)	(1,593)
Net cash provided by investing activities	(116,366)	(114,981)

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

	Nine Months Ended June 30, 1999	1998
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	$ (4,495)	$(13,447)
Certificates of deposit and other time deposits	(23,476)	50,553
Borrowings	90,836	64,940
Cash dividends	(7,107)	(5,837)
Stock issued under employee benifit plans	428	384
Stock issued under dividend reinvestment and stock purchase plan	511	511
Stock options exercised	177	288
Stock repurchased	(339)	
Net cash provided by financing activities	56,535	97,392
Net Change in Cash and Cash Equivalents	(41,403)	(2,902)
Cash and Cash Equivalents, January 1	80,769	43,720
Cash and Cash Equivalents, September 30	39,366	$ 40,818

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 or adoption of accounting pronouncements 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 or Adoption of Accounting Pronouncements

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES - During 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement requires companies to record derivatives on the balance sheet at their fair value. Statement No. 133 also acknowledges that the method of recording a gain or loss depends on the use of the derivative.

The new Statement applies to all entities. If hedge accounting is elected by the entity, the method of assessing the effectiveness of the hedging derivative and the measurement approach of determining the hedge's ineffectiveness must be established at the inception of the hedge.

Statement No. 133 amends Statement No. 52 and supersedes Statements No. 80, 105, and 119. Statement No. 107 is amended to include the disclosure provisions about the concentrations of credit risk for Statement No. 105. Several Emerging Issues Task Force consensuses are also changed or nullified by the provisions of Statement No. 133.

Statement No. 133 was to be effective for all fiscal years beginning after June 15, 1999. The implementation date has been deferred and FSAS No. 133 will now be effective for all fiscal quarters for all fiscal years beginning after June 15, 2000. The Statement may not be applied retroactively to financial statements of prior periods. The adoption of this Statement will have no material impact on the Corporation's financial condition or result of operations.

ACCOUNTING FOR MORTGAGE-BACKED SECURITIES RETAINED AFTER THE SECURITIZATION OF MORTGAGE LOANS HELD FOR SALE BY A MORTGAGE BANKING ENTERPRISE -Also in 1998, the FASB issued Statement No. 134, Accounting for Mortgage-Backed Securities Retained After the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise. It establishes accounting standards for certain activities of mortgage banking enterprises and for other enterprises with similar mortgage operations. This Statement amends Statement No. 65.

Statement No. 134, as previously amended by Statements No. 115 and 125, required a mortgage banking enterprise to classify a mortgage-backed security as a trading security following the securitization of the mortgage loan held for sale. This Statement further amends Statement No. 65 to require that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities must classify the resulting mortgage-backed security or other retained interests based on the entity's ability and intent to sell or hold those investments.

The determination of the appropriate classification for securities retained after the securitization of mortgage loans by a mortgage banking enterprise now conforms to Statement No. 115. The only new requirement is that if an entity has a sales commitment in place, the security must be classified into trading.

This Statement is effective for the first fiscal quarter beginning after December 15, 1998. On the date this Statement is initially applied, an entity may reclassify mortgage-backed securities and other beneficial interests retained after the securitization of mortgage loans held for sale from the trading category, except for those with sales commitments in place. Those securities and other interests shall be classified based on the entity's present ability and intent to hold the investments. The adoption of this Statement had no material impact on the Corporation's financial condition and result of operations.

REPORTING ON THE COSTS OF START-UP ACTIVITIES - During 1998, the Accounting Standards Executive Committee (AcSEC) issued Statement of Position 98-5, Reporting on the Costs of Start-Up Activities. Statement of Position 98-5 will affect all non-governmental entities, including not-for-profits, reporting start-up costs in their financial statements.

Some existing industry practices result in the capitalization and amortization of start-up costs. This Statement of Position requires that start-up activities and organizational costs associated with both development stage and established operating entities.

According to Statement of Position 98-5, start-up activities are "those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer or beneficiary, initiating a new process in an existing facility, or commencing some new operation. Start-up activities include activities related to organizing a new entity (commonly referred to as organizational costs.)"

Statement of Position 98-5 is effective for fiscal years beginning on or after December 15, 1998. Earlier application is encouraged in fiscal years during which annual financial statements have not yet been issued. The adoption of this Statement did not have a material impact on the Corporation's financial condition or result of operations.

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

NOTE 3. Acquisitions

On April 1, 1999, the Corporation issued 1,098,795 shares of its common stock in exchange for all of the outstanding shares of Jay Financial Corporation Portland, Indiana. At December 31, 1998, Jay Financial Corporation had total assets and shareholders' equity of $114,895,000 and $14,903,000, respectively. The transaction will be accounted for under the pooling -of -interests method of accounting.

On April 21, 1999, the Corporation issued 810,642 shares of its common stock in exchange for all of the outstanding shares of Anderson Community Bank, Anderson, Indiana. At December 31, 1998, Anderson Community Bank had total assets and shareholders' equity of $77,984,000 and $7,740,000, respectively. The transaction will be accounted for under the pooling of -interests method of accounting.

The financial information contained herein reflects the merger and reports the financial condition and results of operations as though the Corporation had been combined as of January 1, 1998. Separate operating results of Jay Financial Corporation and Anderson Community Bank for the periods prior to the merger were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Net interest income:				
First Merchants Corporation	$13,576	$10,458	$36,488	$30,915
Jay Financial Corporation		1,208	2,250	3,458
Anderson Community Bank		825	1,140	2,285
Combined	$13,576	$12,491	$39,878	$36,658
Net income:				
First Merchants Corporation	4,863	3,891	13,001	11,513
Jay Financial Corporation		387	703	1,090
Anderson Community Bank		281	451	763
Combined	$ 4,863	$ 4,559	$14,155	$13,366
Diluted net income per share:				
First Merchants Corporation	.40	.33	1.07	.96
Jay Financial Corporation		.03	.06	.09
Anderson Community Bank		.02	.04	.06
Combined	$ .40	$ .38	$ 1.17	$ 1.11

(Table dollar amounts in thousands)

NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at September 30, 1999:				
U.S. Treasury	$ 11,342	$ 13	$ 41	$ 11,314
Federal agencies	65,064	27	782	64,309
State and municipal	99,800	867	598	100,069
Mortgage-backed securities	146,473	282	3,337	143,418
Other asset-backed securities	22,123		759	21,364
Corporate obligations	10,558	22	66	10,514
Marketable equity securities	1,200		146	1,054
Total available for sale	356,560	1,211	5,729	352,042
Held to maturity at September 30, 1999:				
U.S. Treasury	250		1	249
State and municipal	14,357	135		14,492
Mortgage-backed securities	432	1	1	432
Other asset-backed securities	733		78	655
Total held to maturity	15,772	136	80	15,828
Total investment securities	$ 372,332	$ 1,347	$ 5,809	$ 367,870

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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, 1998:				
U.S. Treasury	$ 22,275	$ 120	$	$ 22,395
Federal agencies	61,605	627	32	62,200
State and municipal	93,198	2,778	21	95,955
Mortgage-backed securities	128,610	440	198	128,852
Other asset-backed securities	265	1	11	255
Corporate obligations	18,624	143	8	18,759
Marketable equity securities	1,200		108	1,092
Total available for sale	325,777	4,109	378	329,508
Held to maturity at December 31, 1998:				
U.S. Treasury	249	4		253
Federal agencies	500	1		501
State and municipal	18,335	370	1	18,704
Mortgage-backed securities	864	3		867
Other asset-backed securities	1,761	2	27	1,736
Total held to maturity	21,709	380	28	22,061
Total investment securities	$ 347,486	$ 4,489	$ 406	$ 351,569

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

NOTE 5. Loans and Allowance

	September 30, 1999	December 31, 1998
Loans:		
Commercial and industrial loans	$ 220,838	$ 188,841
Bankers' acceptances and loans to financial institutions		900
Agricultural production financing and other loans to farmers	25,309	21,951
Real estate loans:		
Construction	27,843	31,719
Commercial and farmland	147,102	137,671
Residential	375,901	361,611
Individuals' loans for household and other personal expenditures	171,849	143,075
Tax-exempt loans	4,374	2,652
Other loans	3,129	2,073
Unearned interest on loans	(42)	(137)
Total	$ 976,303	$ 890,356

	Nine Months Ended September 30, 1999	1998
Allowance for loan losses:		
Balances, January 1	$ 9,209	$ 8,429
Provision for losses	1,617	1,551
Recoveries on loans	342	372
Loans charged off	(1,015)	(1,490)
Balances, September 30	$ 10,153	$ 8,862

NOTE 6. Net Income Per Share

	Three Months Ended September 30, 1999 Income	1999 Weighted-Average Shares	1999 Per Share Amount	1998 Income	1998 Weighted-Average Shares	1998 Per Share Amount
Basic net income per share: Net income available to common stockholders	$4,863	12,043,381	$ .40	$4,559	11,950,118	$ .38
Effect of dilutive stock options					160,384	
Diluted net income per share: Net income available to common stockholders and assumed conversions	$4,863	12,146,080	$ .40	$4,559	12,110,502	$ .38

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	Nine Months Ended September 30, 1999 Income	Weighted-Average Shares	Per Share Amount	1998 Income	Weighted-Average Shares	Per Share Amount
Basic net income per share:						
Net income available to common stockholders	$14,155	12,008,890	$ 1.18	$13,366	11,910,215	$ 1.12
Effect of dilutive stock options		106,239			171,838	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions	$14,155	12,115,129	$ 1.17	$13,366	12,082,053	$ 1.11

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.

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, 1999, was $4,863,000, compared to $4,559,000 earned in the same period of 1998, an increase of 6.7 percent. Diluted net income per share was $.40 for the three months ended September 30, 1999, compared to $.38 for the three months ended September 30, 1998, an increase of 5.3 percent.

Net income for the first nine months of 1999 was $14,155,000 compared to $13,366,000 earned in the same period of 1998, an increase of 5.9 percent. Diluted net income per share was $1.17 and $1.11 for the nine months ended September 30, 1999 and 1998, respectively, an increase of 5.4 percent.

The increase in earnings was primarily due to growth in earning assets and non-interest income. Net interest income increased $3,220,000 or 8.8 percent over the first nine months of 1998 due to growth in average earning assets of 11.9 percent. Non-interest income increased $1,604,000 or 17.2 percent over the first nine months of 1998 due primarily to increased revenues from fiduciary activities and commission income.

Annualized returns on average assets and average shareholders' equity for quarter ended September 30, 1999 were 1.38 percent and 12.46 percent, respectively, compared with 1.44 percent and 12.19 percent for the same period of 1998. For the nine months ended September 30, 1999, annualized returns on average assets and shareholder's equity were 1.37 percent and 12.12 percent, respectively, compared to 1.45 percent and 12.16 percent for the same nine month period in 1998.

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 1998 and 11.2 percent at September 30, 1999. At September 30, 1999, the Corporation had a Tier I risk-based capital ratio of 15.9 percent, total risk- based capital ratio of 17.0 percent, and a leverage ratio of 11.2 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, 1999	December 31, 1998	December 31, 1997
Non-accrual loans	$ 1,314	$ 1,073	$ 2,777
Loans contractually past due 90 days or more other than nonaccruing	3,235	2,334	1,699
Restructured loans	970	1,110	1,540
Total	$ 5,519	$ 4,517	$ 6,016

Impaired loans included in the table above, totaled $2,391,000 at December 31, 1998. An allowance for losses at December 31, 1998, was not deemed necessary for impaired loans totaling $7,041,000, but an allowance of $795,000 was recorded for the remaining balance of impaired loans of $1,956,000. The average balance of impaired loans for 1997 was $4,155,000.

At September 30, 1999, the allowance for loan losses increased by $944,000, to $10,153,000, up from year end 1998. As a percent of loans, the allowance was 1.04 percent, up from 1.03 percent at year end 1998.

The third quarter 1999 provision of $590,000 increased from $539,000 for the same quarter in 1998. Net charge-offs amounted to $295,000 during the quarter. The provision of $1,617,000 for the nine months ended September 30, 1999 increased $66,000 from the same period in 1998. Net charge offs amounted to $673,000 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, 1999	Nine Months Ended September 30, 1998	Year Ended December 31, 1998	Year Ended December 31, 1997
	(Dollars in Thousands)			
Allowance for loan losses:				
Balance at beginning of period	$ 9,209	$8,429	$8,429	$8,010
Chargeoffs	1,015	1,490	2,231	1,949
Recoveries	342	372	639	633
Net chargeoffs	673	1,118	1,591	1,316
Provision for loan losses	1,617	1,551	2,372	1,735
Balance at end of period	$10,153	$8,862	$9,209	$8,429
Ratio of net chargeoffs during the period to average loans outstanding during the period	.10%(1)	.15%(1)	.18%	.16%
Peer Group	N/A	N/A	.29%	.26%

(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, 1999, 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 $147,652,000 in the six month horizon at September 30, 1999, or just over 10.3 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 73.4 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		(57)	
MMIA Savings	150		(100)	
Money Market Index	341		(194)	
Regular Savings	100		(57)	

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)	$81,171	$78,848	$78,859
Change vs. Flat/Base Scenario		(2,323)	(2,312)
Percent Change		(2.86%)	(2.85%)

Earning Assets

The following table presents the earning asset mix as of September 30, 1999, and December 31, 1998, and December 31, 1997.

Loans grew by over $85 million from December 31, 1998, to September 30, 1998, while investment securities grew by $16.3 million during the same period. Commercial and industrial loans increased by more than $31,997,000, while individuals' loans for household and personal expenditures grew by nearly $28,774,000.

EARNING ASSETS

(Dollars in Millions)	September 30, 1999	December 31, 1998	December 31, 1997
Federal funds sold and interest-bearing deposits	$ 1.8	$ 45.3	$ 9.5
Investment securities	367.8	351.2	266.8
Mortgage loans held for sale	.2	0.8	0.5
Loans	976.3	890.4	838.7
Federal Reserve and Federal Home Loan Bank stock	5.6	4.5	4.1
Total	$ 1,351.7	$ 1,292.2	$ 1,079.6

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 1998 and 1997 and at September 30, 1999.

(Dollars in Millions)	September 30, 1999	December 31, 1998	December 31, 1997
Deposits	$1,058.0	$1,086.0	$ 977.0
Securities sold under repurchase agreements	86.7	48.8	15.4
Federal funds purchased and other short-term borrowings	54.3	17.8	13.6
Federal Home Loan Bank advances	63.5	47.1	25.5

The Corporation has continued to leverage its large capital position with Federal Home Loan Bank advances, as well as, repurchase agreements which are pledged against acquired investment securities as collateral for 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.

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, 1999 and 1998.

Net interest income (FTE) for the three months ended September 30, 1999 increased by $1,124,000, or 8.5 percent over the same period in 1998, due to an increase in earning assets of nearly $124 million. For the same period interest income and interest expense, as a percent of average earning assets, declined by .28 and .21 percent respectively, due to lower interest rates and increased non-deposit funding.

Net Interest income (FTE) for the nine months ended September 30, 1999 increased $3,382,000, or 8.7 percent over the same period in 1998, due to an increase in earning assets of over $138 million. Net interest income (FTE), as a percent of average earning assets, during the same period declined 12 basis points 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,					
1999	7.86%	3.55%	4.31%	$1,329,464	$14,314
1998	8.14	3.76	4.38	$1,205,742	13,190
For the nine months ended September 30,					
1999	7.81	3.50	4.31	$1,302,931	42,087
1998	8.19	3.76	4.43	1,164,641	38,705

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-interestincome 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 the third quarter of 1999 exceeded the same quarter in the prior year by $441,000, or 13.4 percent.

Three major areas account for most of the increase:

1. Service charges on deposit accounts increased by $287,000, or 31.9 percent due primarily to increased pricing.
2. Other customer fees increased by $138,000, or 21.1 percent, due to increased card related activity and increased pricing.
3. Commission income increased by $66,000, or 18.7 percent due to increased market synergies.

Other income for the nine months ended September 30, 1999 exceeded the same period in the prior year by $1,604,000, or 17.2 percent.

Four major areas account for most of the increase:

1. Commission income increased $410,000, due to the acquisition of First Merchants Insurance Services, Inc., on April 1, 1998.
2. Revenues from fiduciary activities grew $280,000, or 8.9 percent, due to strong new business activity and markets.
3. Other customer fees increased $320,000, or 16.5 percent, due to increased card related activity and increased pricing.
4. Service charges on deposit accounts increased $466,000, or 16.5 percent due to increased pricing.

Other Expense

Total other expenses represent non-interest operating expenses of the Corporation. Third quarter other expense in 1999 exceeded the same quarter of the prior year by $1,048,000, or 12.8 percent.

Two major areas account for most of the increase:

1. Salaries and benefit expense grew $373,000, or 8.1 percent, due to normal salary increases and staff additions.

2. Equipment expense increased by $262,000, or 34.3 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 nine month period ended September 30, 1999 exceeded the same period of the prior year by $3,562,000, or 14.9 percent.

Four major areas account for most of the increase:

1. Salaries and benefit expense grew $1,527,000, or 11.5 percent, due to normal salary increases and staff additions.
2. Merger related costs of $734,000 resulted from the acquisitions of Jay Financial Corporation and Anderson Community Bank in April 1999.
3. Equipment expense increased $427,000, or 18.6 percent, reflecting the Corporation's efforts to improve efficiency and provide electronic service delivery to its customers.
4. Computer processing expense increased by $181,000, or 16.9 percent.

Income Taxes

Income tax expense, for the three months ended September 30, 1999, increased by $123,000 over the same period in 1998, due to a $427,000 increase in pre-tax net income, mitigated somewhat by a $61,000 increase in tax-exempt income. Likewise, the increase of $407,000 for the nine months ended September 30, 1999, as compared to the same period in 1998, results from a $1,196,000 increase in pre-tax net income, mitigated somewhat by a $302,000 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 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 sytem failure or miscalculations. The Corporation is utilizing both internal and external resources to identify, correct and test the systems for the Year 2000 compliance. The Corporation began the testing phase during the third quarter of 1998. Core application testing was completed as of June 30, 1999. The Corporation's contingency plan was also completed on June 30, 1999.

The Corporation has contacted the companies that supply or service its material operations to certify that their respective computer systems are Year 2000 compliant. In addition to possible expenses related to the Corporation's systems and those of the Corporation's service providers, the Corporation could incur losses if Year 2000 problems affect any of its depositors or borrowers. Such problems could include delayed loan payments, due to Year 2000 problems affecting any of its significant borrowers or impairing the payroll systems of large employers in its market area. Because the Corporation's loan portfolio to corporate and individual borrowers is diversified and its market area does not depend significantly upon one employer or industry, the Corporation does not expect any such Year 2000 related difficulties that may affect its depositors and borrowers to significantly affect its net earnings or cash flows.

The Board of Directors reviews, on a quarterly basis, the progress in addressing Year 2000 issues. The Corporation believes that its costs related to upgrading systems and software for Year 2000 compliance will not exceed $1,025,000. As of June 30, 1999, the Corporation has spent approximately $860,000 in connection with Year 2000 compliance. Of the $860,000, approximately $650,000 has been capitalized as the Corporation replaced and upgraded non-compliant systems. Although the Corporation believes it is taking the necessary steps to address the Year 2000 compliance issue, no assurances can be given that some problems will not occur or that the Corporation 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.

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:
27	Financial Data Schedule, Period Ending September 30, 1999
27	Financial Data Schedule, Period Ending June 30, 1999
27	Financial Data Schedule, Period Ending March 31, 1999
27	Financial Data Schedule, Period Ending December 31, 1998
27	Financial Data Schedule, Period Ending September 30, 1998
27	Financial Data Schedule, Period Ending June 30, 1998
27	Financial Data Schedule, Period Ending March 31, 1998
27	Financial Data Schedule, Period Ending December 31, 1997
27	Financial Data Schedule, Period Ending December 31, 1996
27	Financial Data Schedule, Period Ending December 31, 1995

(b) Reports on Form 8-K:

None

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 November 11, 1999 by /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

Date November 11, 1999 by /s/ James L. Thrash

James L. Thrash
Chief Financial & Principal
Accounting Officer

9
1,000

9-MOS
DEC-31-1999
JAN-01-1999
SEP-30-1999
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