UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15 (d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002 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 or organization)	(I.R.S. Employer Identification No.)
200 East Jackson Muncie, Indiana	47305-2814 (Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code: (765) 747-1500

Securities registered pursuant to Section 12 (b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock, $.125 stated value per share

(Title of Class)

Indicate by check mark whether the registrant(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein,and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [x] No[ ]

The aggregate market value (not necessarily a reliable indication of the price at which more than a limited number of shares would trade) of the voting stock held by non-affiliates of the registrant was $464,241,000 as of the last business day of the registrant's most recently completed second fiscal quarter (June 28, 2002).

As of March 15, 2003 there were 16,330,031 outstanding common shares, without par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Part of Form 10-K Into Which Incorporated
Portions of the Registrant's Annual Report to Shareholders for the year ended December 31, 2002	Part II (Items 5, 6, 7, 7A, 8 and 9)
Portions of the Registrant's Definitive Proxy Statement for Annual Meeting of Shareholders to be held April 10, 2003	Part III (Items 10 through 13)

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PART I

ITEM 1. BUSINESS

GENERAL

First Merchants Corporation (the "Corporation") was incorporated under Indiana law on September 20, 1982, as the bank holding company for First Merchants Bank, National Association ("First Merchants"), a national banking association incorporated in 1893. Prior to December 16, 1991, First Merchants' name was The Merchants National Bank of Muncie. On November 30, 1988, the Corporation acquired Pendleton Banking Company ("Pendleton"), a state chartered commercial bank organized in 1872. On July 31, 1991, the Corporation acquired First United Bank ("First United"), a state chartered commercial bank organized in 1882. On August 1, 1996, the Corporation acquired The Union County National Bank of Liberty ("Union County"), a national banking association incorporated in 1872. On October 2, 1996, the Corporation acquired The Randolph County Bank ("Randolph County"), a state chartered commercial bank founded in 1865. On April 1, 1998, Pendleton acquired the Muncie office of Insurance and Risk Management, Inc., which was renamed, on April 1, 1998, First Merchants Insurance Services, Inc. ("FMIS"). On April 1, 1999, the Corporation acquired The First National Bank of Portland ("First National"), a national banking association incorporated in 1904. On April 21, 1999, the Corporation acquired Anderson Community Bank ("Anderson"), a state charted commercial bank founded in 1995. Pendleton and Anderson were combined on April 21, 1999, to form Madison Community Bank ("Madison"). Decatur Bank and Trust Company ("Decatur") a state chartered commercial bank organized in 1966 was acquired on June 1, 2000. On January 19, 2000, First Merchants Reinsurance Company was formed to underwrite accident, health and credit life insurance. On July 1, 2001, the Corporation acquired Frances Slocum Bank & Trust Company ("Frances Slocum"), a state chartered commercial bank organized in 1963. Effective January 1, 2002, the Corporation acquired Delaware County Abstract Company, Inc. and Beebe & Smith Title Insurance Company, Inc., which were merged into Indiana Title Insurance Company, a wholly-owned subsidiary of the Corporation. Such title insurance operations were subsequently contributed to Indiana Title Insurance Company, LLC in which the Corporation has a 52.12% ownership interest. On April 1, 2002, the Corporation acquired Lafayette Bank and Trust Company ("Lafayette") a state chartered commercial bank founded in 1899. On September 6, 2002, the Corporation acquired Stephenson Insurance Service, Inc., which was merged into FMIS. Effective January 1, 2003, the Corporation formed Merchants Trust Company, National Association ("MTC"), a wholly-owned subsidiary of the Corporation. On January 1, 2003, MTC purchased the trust operations of First Merchants, First National and Lafayette, which united the trust and asset management services of all affiliate banks of the Corporation. On March 1, 2003, the Corporation acquired Commerce National Bank ("Commerce National"), a national banking association incorporated in 1991.

As of December 31, 2002, the Corporation had consolidated assets of $2.679 billion, consolidated deposits of $2.037 billion and stockholders' equity of $261.1 million.

The Corporation is headquartered in Muncie, Indiana, and is presently engaged in conducting commercial banking business through the offices of its ten banking subsidiaries. As of December 31, 2002, the Corporation and its subsidiaries had 1,127 full-time equivalent employees.

Through its bank subsidiaries, the Corporation offers a broad range of financial services, including: accepting time, savings and demand deposits; making consumer, commercial, agri-business and real estate mortgage loans; renting safe deposit facilities; providing personal and corporate trust services; providing full service brokerage; and providing other corporate services, letters of credit and repurchase agreements. Through various nonbank subsidiaries, the Corporation also offers personal and commercial lines of insurance and engages in the title agency business and the reinsurance of credit life, accident, and health insurance.

The Corporation makes its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, available on its website at www.firstmerchants.com without charge, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission. Additionally, the Corporation will also provide without charge, a copy of its Form 10-K to any shareholder by mail. Requests should be sent to Mr. Brian Edwards, Shareholder Relations Officer, First Merchants Corporation, P.O. Box 792, Muncie, IN 47308-0792.

Acquisition Policy

The Corporation anticipates that it will continue its policy of geographic expansion of its banking business through the acquisition of banks whose operations are consistent with its community banking philosophy. Management routinely explores opportunities to acquire financial institutions and other financial services-related businesses and to enter into strategic alliances to expand the scope of its services and its customer base.

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COMPETITION

The Corporation's banking subsidiaries are located in Adams, Boone, Carroll, Delaware, Fayette, Hamilton, Henry, Howard, Jasper, Jay, Madison, Miami, Tippecanoe, Wabash, Wayne, White, Randolph, and Union counties in Indiana and Butler and Franklin counties in Ohio. In addition to the competition provided by the lending and deposit gathering subsidiaries of national manufacturers, retailers, insurance companies and investment brokers, the banking subsidiaries compete vigorously with other banks, thrift institutions, credit unions and finance companies located within their service areas.

REGULATION AND SUPERVISION

OF FIRST MERCHANTS AND SUBSIDIARIES

BANK HOLDING COMPANY REGULATION

The Corporation is registered as a bank holding company and has elected to be a financial holding company. It is subject to the supervision of, and regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve") under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). Bank holding companies are required to file periodic reports with and are subject to periodic examination by the Federal Reserve. The Federal Reserve has issued regulations under the BHC Act requiring a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. Thus, it is the policy of the Federal Reserve that, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity. Additionally, under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), a bank holding company is required to guarantee the compliance of any subsidiary bank that may become "undercapitalized" (as defined in the FDICIA) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency. Under the BHC Act, the Federal Reserve has the authority to require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the determination that such activity constitutes a serious risk to the financial stability of any bank subsidiary.

The BHC Act requires the Corporation to obtain the prior approval of the Federal Reserve before:

1. Acquiring direct or indirect control or ownership of any voting shares of any bank or bank holding company if, after such acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the bank or bank holding company.

2. Merging or consolidating with another bank holding company; or

3. Acquiring substantially all of the assets of any bank.

The BHC Act generally prohibits bank holding companies that have not become financial holding companies from (i) engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries, and (ii) acquiring or retaining direct or indirect control of any company engaged in the activities other than those activities determined by the Federal Reserve to be closely related to banking or managing or controlling banks.

The BHC Act does not place territorial restrictions on such nonbanking-related activities.

CAPITAL ADEQUACY GUIDELINES FOR BANK HOLDING COMPANIES

The Corporation is required to comply with the Federal Reserve's risk-based capital guidelines. These guidelines require a minimum ratio of capital to risk-weighted assets of 8% (including certain off-balance sheet activities such as standby letters of credit). At least half of the total required capital must be "Tier 1 capital," consisting principally of common shareholders' equity, noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interest in the equity accounts of consolidated subsidiaries, less certain goodwill items. The remainder may consist of a limited amount of subordinate debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, cumulative perpetual preferred stock, and a limited amount of the general loan loss allowance.

In addition to the risk-based capital guidelines, the Federal Reserve has adopted a Tier 1 (leverage) capital ratio under which the Corporation must maintain a minimum level of Tier 1 capital to average total consolidated assets. The ratio is 3% in the case of bank holding companies which have the highest regulatory examination ratings and are not contemplating significant growth or expansion. All other bank holding companies are expected to maintain a ratio of at least 1% to 2% above the stated minimum.

The following are the Corporation's regulatory capital ratios as of December 31, 2002:

	Corporation	Regulatory Minimum Requirement
Tier 1 Capital: (to risk-weighted assets)	10.1%	4.0%
Total Capital:	11.2%	8.0%

BANK REGULATION

First Merchants, Union County, First National and Commerce National are national banks and are supervised, regulated and examined by the Office of the Comptroller of the Currency (the "OCC"). First United, Madison, Randolph County, Decatur, Frances Slocum and Lafayette are state banks chartered in Indiana and are supervised, regulated and examined by the Indiana Department of Financial Institutions. In addition, six of the Corporation's subsidiaries, Madison, First United, Randolph County, Decatur, Frances Slocum and Lafayette are supervised, regulated and examined by the FDIC. Each regulator has the authority to issue cease-and-desist orders if it determines that activities of the bank regularly represent an unsafe and unsound banking practice or a violation of law.

Both federal and state law extensively regulate various aspects of the banking business such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Current federal law also requires banks, among other things, to make deposited funds available within specified time periods.

Insured state-chartered banks are prohibited under FDICIA from engaging as the principal in activities that are not permitted for national banks, unless (i) the FDIC determines that the activity would pose no significant risk to the appropriate deposit insurance fund, and (ii) the bank is, and continues to be, in compliance with all applicable capital standards.

BANK CAPITAL REQUIREMENTS

The FDIC and the OCC have adopted risk-based capital ratio guidelines to which state-chartered banks and national banks are subject. The guidelines establish a framework that makes regulatory capital requirements more sensitive to differences in risk profiles. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk.

Like the capital guidelines established by the Federal Reserve, these guidelines divide a bank's capital into tiers. Banks are required to maintain a total risk-based capital ratio of 8%. The FDIC or OCC may, however, set higher capital requirements when a bank's particular circumstances warrant. Banks experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

In addition, the FDIC and the OCC established guidelines prescribing a minimum Tier 1 leverage ratio (Tier 1 capital to adjusted total assets as specified in the guidelines). These guidelines provide for a minimum Tier 1 leverage ratio of 3% for banks that meet specified criteria, including that they have the highest regulatory rating and are not experiencing or anticipating significant growth. All other banks are required to maintain a Tier 1 leverage ratio of 3% plus an additional 100 to 200 basis points.

All of the Corporation's affiliate banks exceed the risk-based capital guidelines of the FDIC and/or the OCC as of December 31, 2002.

The Federal Reserve, the FDIC and the OCC have adopted rules to incorporate market and interest rate risk components into their risk-based capital standards. Amendments to the risk-based capital requirements, incorporating market risk, became effective January 1, 1998. Under the new market risk requirements, capital will be allocated to support the amount of market risk related to a financial institution's ongoing trading activities.

FDIC IMPROVEMENT ACT OF 1991

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires, among other things, federal bank regulatory authorities to take "prompt corrective action" with respect to banks which do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The FDIC has adopted regulations to implement the prompt corrective action provisions of FDICIA.

"Undercapitalized" banks are subject to growth limitations and are required to submit a capital restoration plan. A bank's compliance with such plan is required to be guaranteed by the bank's parent holding company. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. "Significantly undercapitalized" banks are subject to one or more restrictions, including an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cease receipt of deposits from correspondent banks, and restrictions on compensation of executive officers. "Critically undercapitalized" institutions may not, beginning 60 days after becoming "critically undercapitalized," make any payment of principal or interest on certain subordinated debt or extend credit for a highly leveraged transaction or enter into any transaction outside the ordinary course of business. In addition, "critically undercapitalized" institutions are subject to appointment of a receiver or conservator.

FDICIA continued

As of December 31, 2002, each bank subsidiary of First Merchants is "well capitalized" based on the "prompt corrective action" ratios and deadlines described above. It should be noted, however, that a bank's capital category is determined solely for the purpose of applying the OCC's (or the FDIC's) "prompt corrective action" regulations and that the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects.

DEPOSIT INSURANCE

The Corporation's affiliated banks are insured up to regulatory limits by the FDIC and, accordingly, are subject to deposit insurance assessments to maintain the Bank Insurance Fund (the "BIF") and the Savings Association Insurance Fund ("SAIF") administered by the FDIC. The FDIC has adopted regulations establishing a permanent risk-related deposit insurance assessment system. Under this system, the FDIC places each insured bank in one of nine risk categories based on (i) the bank's capitalization, and (ii) supervisory evaluations provided to the FDIC by the institution's primary federal regulator. Each insured bank's insurance assessment rate is then determined by the risk category in which it is classified by the FDIC.

The Deposit Insurance Funds Act of 1996 provides for assessments to be imposed on insured depository institutions with respect to deposits insured by the BIF and the SAIF (in addition to assessments currently imposed on depository institutions with respect to BIF- and SAIF-insured deposits) to pay for the cost of Financing Corporation ("FICO") funding. The FICO assessments do not vary depending upon a depository institution's capitalization or supervisory evaluations.

DIVIDEND LIMITATIONS

National and state banking laws restrict the amount of dividends that an affiliate bank may declare in a year without obtaining prior regulatory approval. National and state banks are limited to the bank's retained net income (as defined) for the current year plus those for the previous two years. At December 31, 2002, the Corporation's affiliate banks had a total of $15,147,000 retained net profits available for 2003 dividends to the Corporation without prior regulatory approval.

BROKERED DEPOSITS

Under FDIC regulations, no FDIC-insured depository institution can accept brokered deposits unless it (i) is well capitalized, or (ii) is adequately capitalized and received a waiver from the FDIC. In addition, these regulations prohibit any depository institution that is not well capitalized from (a) paying an interest rate on deposits in excess of 76 basis points over certain prevailing market rates or (b) offering "pass through" deposit insurance on certain employee benefit plan accounts unless it provides certain notice to affected depositors.

INTERSTATE BANKING AND BRANCHING

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal") subject to certain concentration limits, required regulatory approvals and other requirements, (i) financial holding companies such as the Corporation are permitted to acquire banks and bank holding companies located in any state; (ii) any bank that is a subsidiary of a bank holding company is permitted to receive deposits, renew time deposits, close loans, service loans and receive loan payments as an agent for any other bank subsidiary of that holding company; and (iii) banks are permitted to acquire branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states, and establishing de novo branch offices in other states.

FINANCIAL SERVICES MODERNIZATION ACT

The Gramm-Leach-Bliley Act of 1999 (the "Financial Services Modernization Act") establishes a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the existing BHC Act. Under this legislation, bank holding companies would be permitted to conduct essentially unlimited securities and insurance activities as well as other activities determined by the Federal Reserve Board to be financial in nature or related to financial services. As a result, the Corporation is able to provide securities and insurance services. Furthermore, under this legislation, the Corporation is able to acquire, or be acquired by, brokerage and securities firms and insurance underwriters. In addition, the Financial Services Modernization Act broadens the activities that may be conducted by national banks through the formation of financial subsidiaries. Finally, the Financial Services Modernization Act modifies the laws governing the implementation of the Community Reinvestment Act and addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act, by filing a declaration that the bank holding company wishes to become a financial holding company. Also effective March 11, 2000, no regulatory approval is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. The Federal Reserve Bank of Chicago approved the Corporation's application to become a Financial Holding Company effective September 13, 2000.

USA PATRIOT ACT

As part of the USA Patriot Act, signed into law on October 26, 2001, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the "Act"). The Act authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country. In addition, the Act expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours.

Treasury regulations implementing the due diligence requirements were issued in 2002. These regulations required minimum standards to verify customer identity, encouraged cooperation among financial institutions, federal banking agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, prohibited the anonymous use of "concentration accounts," and required all covered financial institutions to have in place an anti-money laundering compliance program.

The Act also amended the Bank Holding Company Act and the Bank Merger Act to require the federal banking agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing an application under these acts.

THE SARBANES-OXLEY ACT

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), which became law on July 30, 2002, added new legal requirements for public companies affecting corporate governance, accounting and corporate reporting.

The Sarbanes-Oxley Act provides for, among other things:

* a prohibition on personal loans made or arranged by the issuer to its directors and executive officers (except for loans made by a bank subject to Regulation O);
* independence requirements for audit committee members;
* independence requirements for company auditors;
* certification of financial statements on Forms 10-K and 10-Q reports by the chief executive officer and the chief financial officer;
* the forfeiture by the chief executive officer and chief financial officer of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by such officers in the twelve month period following initial publication of any financial statements that later require restatement due to corporate misconduct;
* disclosure of off-balance sheet transactions;
* two-business day filing requirements for insiders filing Form 4s;
* disclosure of a code of ethics for financial officers and filing a Form 8-K for a change in or waiver of such code;
* the reporting of securities violations "up the ladder" by both in-house and outside attorneys;
* restrictions on the use of non-GAAP financial measures in press releases and SEC filings;
* the formation of a public accounting oversight board; and
* various increased criminal penalties for violations of securities laws.

The Sarbanes-Oxley Act contains provisions which became effective upon enactment on July 30, 2002 and provisions which will become effective from within 30 days to one year from enactment. The SEC has been delegated the task of enacting rules to implement various provisions. In addition, each of the national stock exchanges has proposed new corporate governance rules, including rules strengthening director independence requirements for boards, the adoption of corporate governance codes and charters for the nominating, corporate governance and audit committees.

ADDITIONAL MATTERS

The Corporation and its affiliate banks are subject to the Federal Reserve Act, which restricts financial transactions between banks and affiliated companies. The statute limits credit transactions between banks, affiliated companies and its executive officers and its affiliates. The statute prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, and restricts the types of collateral security permitted in connection with the bank's extension of credit to an affiliate. Additionally, all transactions with an affiliate must be on terms substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated parties.

In addition to the matters discussed above, the Corporation's affiliate banks are subject to additional regulation of their activities, including a variety of consumer protection regulations affecting their lending, deposit and collection activities and regulations affecting secondary mortgage market activities.

The earnings of financial institutions are also affected by general economic conditions and prevailing interest rates, both domestic and foreign, and by the monetary and fiscal policies of the United States Government and its various agencies, particularly the Federal Reserve.

Additional legislation and administrative actions affecting the banking industry may be considered by the United States Congress, state legislatures and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislation or administrative action will be enacted or the extent to which the banking industry in general or the Corporation and its affiliate banks in particular would be affected.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Corporation from time to time includes forward-looking statements in its oral and written communication. The Corporation may include forward-looking statements in filings with the Securities and Exchange Commission, such as this Form 10-K, in other written materials and in oral statements made by senior management to analysts, investors, representatives of the media and others. The Corporation intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and the Corporation is including this statement for purposes of these safe harbor provisions. Forward-looking statements can often be identified by the use of words like "estimate," "project," "intend," "anticipate," "expect" and similar expressions. These forward-looking statements include:

* statements of the Corporation's goals, intentions and expectations;
* statements regarding the Corporation's business plan and growth strategies;
* statements regarding the asset quality of the Corporation's loan and investment portfolios; and
* estimates of the Corporation's risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors which could affect the actual outcome of future events:

* fluctuations in market rates of interest and loan and deposit pricing, which could negatively affect the Corporation's net interest margin, asset valuations and expense expectations;
* adverse changes in the Indiana economy, which might affect the Corporation's business prospects and could cause credit-related losses and expenses;
* adverse developments in the Corporation's loan and investment portfolios;
* competitive factors in the banking industry, such as the trend towards consolidation in the Corporation's market; and
* changes in the banking legislation or the regulatory requirements of federal and state agencies applicable to bank holding companies and banks like the Corporation's affiliate banks.

Because of these and other uncertainties, the Corporation's actual future results may be materially different from the results indicated by these forward-looking statements. In addition, the Corporation's past results of operations do not necessarily indicate its future results.

STATISTICAL DATA

The following tables set forth statistical data relating the Corporation and its subsidiaries.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL

The daily average balance sheet amounts, the related interest income or expense, and average rates earned or paid are presented in the following table.
(Dollars in Thousands)

	2002			2001			2000		
	Average Balance	Interest Income/ Balance	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets:									
Federal funds sold	$ 39,239	$ 557	1.4%	$ 31,820	$ 899	2.8%	$ 9,938	$ 666	6.7%
Interest-bearing deposits......	2,866	141	4.9	2,060	106	5.1	1,807	103	5.7
Federal Reserve and Federal Home Loan Bank stock.	12,327	735	6.0	7,657	559	7.3	6,456	585	9.1
Securities: (1)									
Taxable	170,937	9,086	5.3	179,006	11,207	6.3	235,745	14,478	6.1
Tax-exempt	131,145	9,523	7.3	85,288	6,312	7.4	95,836	7,057	7.4
Total Securities.............	302,082	18,609	6.2	264,294	17,519	6.6	331,581	21,535	6.5
Mortgage loans held for sale.....	21,545	503	2.3	481	41	8.5	75	8	10.7
Loans: (2)									
Commercial	1,010,232	66,736	6.6	612,031	49,786	8.1	492,793	45,373	9.2
Bankers' acceptance and Commercial paper purchased...									
Real estate mortgage...........	484,267	35,704	7.4	404,831	31,908	7.9	372,104	29,795	8.0
Installment	318,277	26,649	8.4	245,978	21,388	8.7	233,966	20,622	8.8
Tax-exempt	8,108	725	8.9	7,234	674	9.3	5,075	478	9.4
Total loans	1,842,429	130,317	7.1	1,270,555	103,797	8.2	1,104,013	96,276	8.7
Total earning assets.........	2,198,943	150,359	6.8	1,576,386	122,880	7.8	1,453,795	119,165	8.2
Net unrealized gain (loss) on securities available for sale..............	6,214			2,608			(13,421)		
Allowance for loan losses........	(20,187)			(13,736)			(11,570)		
Cash and due from banks..........	66,510			42,814			39,250		
Premises and equipment	44,088			25,265			22,329		
Other assets	110,683			56,357			42,308		
Total assets	$2,406,251			$1,689,694			$1,532,691		
Liabilities:									
Interest-bearing deposits:									
NOW accounts	$ 273,126	3,680	1.3%	$ 192,573	2,475	1.3%	$ 168,773	2,920	1.7%
Money market deposit accounts	332,811	3,290	1.0	214,087	6,386	3.0	193,932	9,000	4.6
Savings deposits	184,849	2,184	1.2	122,175	2,310	1.9	98,988	2,477	2.5
Certificates and other time deposits	838,272	30,546	3.6	655,477	34,655	5.3	612,605	35,210	5.7
Total interest-bearing deposits.....................	1,629,058	39,700	2.4	1,184,312	45,826	3.9	1,074,298	49,607	4.6
Borrowings	277,709	14,060	5.1	171,771	10,248	6.0	169,869	10,939	6.4
Total interest-bearing liabilities..................	1,906,767	53,760	2.8	1,356,083	56,074	4.1	1,244,167	60,546	4.9
Noninterest-bearing deposits.....	227,995			147,318			134,717		
Other liabilities	33,914			20,061			12,361		
Total liabilities............	2,168,676			1,523,462			1,391,245		
Stockholders' equity	237,575			166,232			141,446		
Total liabilities and stockholders' equity........	$2,406,251	53,760	2.4(3)	$1,689,694	56,074	3.6(3)	$1,532,691	60,546	4.2(3)
Net interest income		$ 96,599			$ 66,806			$ 58,619	
Net interest margin..........			4.4			4.2			4.0

(1) Average balance of securities is computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment.

(2) Nonaccruing loans have been included in the average balances.

(3) Total interest expense divided by total earning assets adjustment to convert tax exempt investment securities to fully taxable equivalent basis, using marginal rate of 35% for 2002, 2001, and 2000............................

	2002	2001	2000
	$3,676	$2,445	$2,637

STATISTICAL DATA (continued)

ANALYSIS OF CHANGES IN NET INTEREST INCOME

The following table presents net interest income components on a tax-equivalent basis and reflects changes between periods attributable to movement in either the average balance or average interest rate for both earning assets and interest-bearing liabilities. The volume differences were computed as the difference in volume between the current and prior year times the interest rate of the prior year, while the interest rate changes were computed as the difference in rate between the current and prior year times the volume of the prior year. Volume/rate variances have been allocated on the basis of the absolute relationship between volume variances and rate variances.

	2002 Compared to 2001 Increase (Decrease) Due To			2001 Compared to 2000 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in Thousands on Fully Taxable Equivalent Basis)					
Interest income:						
Federal funds sold	$ 176	$ (518)	$ (342)	$ 795	$ (562)	$ 233
Interest-bearing deposits	49	42	91	14	(11)	3
Federal Reserve and Federal Home Loan Bank stock	293	(117)	176	98	(124)	(26)
Securities	2,386	(1,296)	1,090	(4,452)	436	(4,016)
Mortgage loans held for sale	513	(51)	462	35	(2)	33
Loans	40,558	(14,556)	26,002	13,843	(6,355)	7,488
Totals	43,975	(16,496)	27,479	10,333	(6,618)	3,715
Interest expense:						
NOW accounts	1,080	125	1,205	374	(819)	(445)
Money market deposit accounts	2,468	(5,564)	(3,096)	860	(3,474)	(2,614)
Savings deposits	928	(1,054)	(126)	511	(678)	(167)
Certificates and other time deposits	8,244	(12,353)	(4,109)	2,372	(2,927)	(555)
Borrowings	5,552	(1,741)	3,811	121	(812)	(691)
Totals	18,272	(20,587)	(2,315)	4,238	(8,710)	(4,472)
Change in net interest income (fully taxable equivalent basis)	$25,703	$ 4,091	29,794	$ 6,095	$ 2,092	8,187
Tax equivalent adjustment using marginal rate of 35% for 2002, 2001, and 2000			(1,232)			192
Change in net interest income			$ 28,562			$ 8,379

STATISTICAL DATA (continued)

INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Available for sale at December 31, 2002				
U.S. Treasury	$ 125			$ 125
Federal agencies	27,630	$ 814	$ 8	28,436
State and municipal	135,715	5,787	178	141,324
Mortgage-backed securities	117,724	2,448	54	120,118
Other asset-backed securities	1,000			1,000
Corporate obligations	12,101	465		12,566
Marketable equity securities	29,452	20	116	29,356
Total available for sale	323,747	9,534	356	332,925
Held to maturity at December 31, 2002				
State and municipal	9,013	448		9,461
Mortgage-backed securities	124			124
Total held to maturity	9,137	448		9,585
Total investment securities	$332,884	$ 9,982	$ 356	$342,510
Available for sale at December 31, 2001				
U.S. Treasury	$ 124			$ 124
Federal agencies	30,808	$ 767	$ 2	31,573
State and municipal	74,776	1,644	215	76,205
Mortgage-backed securities	100,811	1,710	1	102,520
Other asset-backed securities	10,116	167		10,283
Corporate obligations	3,498	116		3,614
Marketable equity securities	7,472		123	7,349
Total available for sale	227,605	4,404	341	231,668
Held to maturity at December 31, 2001				
State and municipal	8,426	166	58	8,534
Mortgage-backed securities	228			228
Total held to maturity	8,654	166	58	8,762
Total investment securities	$236,259	$ 4,570	$ 399	$240,430

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STATISTICAL DATA (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2000:				
U.S. Treasury..............................	$ 2,997			$ 2,997
Federal agencies...........................	55,403	$ 268	$ 155	55,516
State and municipal........................	81,370	1,045	103	82,312
Mortgage-backed securities.................	127,907	139	922	127,124
Other asset-backed securities	19,924	10	148	19,786
Corporate obligations	7,238	9	395	6,852
Marketable equity securities...............	1,277		134	1,143
Total available for sale................	296,116	1,471	1,857	295,730
Held to maturity at December 31, 2000:				
U.S. Treasury..............................	250			250
State and municipal........................	11,645	131	36	11,740
Mortgage-backed securities.................	338			338
Total held to maturity..................	12,233	131	36	12,328
Total investment securities.............	$308,349	$ 1,602	$ 1,893	$308,058

	Cost 2002	2001	2000
Federal Reserve and Federal Home Loan Bank stock at December 31:			
Federal Reserve Bank stock	$ 493	$ 493	$ 493
Federal Home Loan Bank stock	10,916	7,857	6,692
Total	$11,409	$8,350	$7,185

The Fair value of Federal Reserve and Federal Home Loan Bank stock approximates cost.

The maturity distribution (dollars in thousands) and average yields for the securities portfolio at December 31, 2002 were:

Securities available for sale December 31, 2002:

	Within 1 Year		1-5 Years		5-10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury......................	$ 125	1.2%				
Federal Agencies...................	7,311	5.0	$15,069	3.7%	$ 4,054	3.9%
State and Municipal................	12,132	4.5	45,572	4.4	44,508	4.6
Corporate Obligations..............	3,059	6.6	9,507	6.1		
Total..........................	$22,627	4.9%	$70,148	4.5%	$48,562	4.6%

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STATISTICAL DATA (continued)

	Due After Ten Years		Marketable Equity, Mortgage and Other Asset-Backed Securities		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury					$ 125	1.2%
Federal Agencies	$ 2,002	2.7%			28,436	4.0
State and Municipal	39,112	4.5			141,324	4.5
Corporate Obligations					12,566	6.3
Marketable Equity Securities			$ 29,356	1.3%	29,356	1.3
Mortgage-backed securities			120,118	5.1	120,118	5.1
Other asset-backed securities			1,000	3.8	1,000	3.8
Total	$ 41,114	4.4%	$ 150,474	4.3%	$332,925	4.4%

Securities held to maturity at December 31, 2002:

	Within 1 Year		1-5 Years		5-10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
State and Municipal	$ 1,286	5.1%	$ 4,857	5.2%	$2,015	5.4%

	Due After Ten Years		Mortgage Backed Securities		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
State and Municipal	$ 855	6.0%			$ 9,013	5.3%
Mortgage-backed securities			$ 124	8.4%	124	8.4
Total	$ 855	6.0%	$ 124	8.4%	$ 9,137	5.4%

*Interest yields on state and municipal securities are presented on a fully taxable equivalent basis using a 35% rate.

Federal Reserve and Federal Home Loan Bank stock at December 31, 2002:

	Amount	Yield
Federal Reserve Bank Stock	$ 493	6.0%
Federal Home Loan Bank stock	10,916	5.8
Total	$11,409	5.9%

STATISTICAL DATA (continued)

LOAN PORTFOLIO

TYPES OF LOANS

The loan portfolio at the dates indicated is presented below:

	2002	2001	2000	1999	1998
			(Dollars in Thousands)		
Loans at December 31:					
Commercial and industrial loans	$ 406,644	$ 301,962	$ 258,405	$224,712	$188,841
Bankers acceptances and loans to financial institutions					900
Agricultural production financing and other loans to farmers	85,059	29,645	24,547	21,547	21,951
Real estate loans:					
Construction	133,896	58,316	45,412	31,996	31,719
Commercial and farmland	401,561	230,233	167,317	150,544	137,671
Residential	746,349	544,028	466,660	380,596	361,611
Individuals' loans for household and other personal expenditures	206,083	179,325	201,629	181,878	142,938
Tax-exempt loans	12,615	7,277	6,093	4,070	2,652
Other loans	12,170	8,800	5,523	3,552	2,073
Total loans	$2,004,377	$1,359,586	$1,175,586	$998,895	$890,356

Residential Real Estate Loans Held for Sale at December 31, 2002, 2001, 2000, 1999, and 1998 were $21,545,000, $307,000, $0, $61,000, and $776,000.

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

Presented in the table below are the maturities of loans (excluding commercial real estate, banker acceptances, farmland, residential real estate and individuals' loans) outstanding as of December 31, 2002. Also presented are the amounts due after one year classified according to the sensitivity to changes in interest rates.

		Maturing		
	Within 1 Year	1-5 Years	Over 5 Years	Total
		(Dollars in Thousands)		
Commercial and industrial loans	$ 279,576	$ 92,923	$ 34,145	$ 406,644
Agricultural production financing and other loans to farmers	73,909	8,741	2,409	85,059
Real estate - Construction	100,005	26,336	7,555	133,896
Tax-exempt loans	521	7,553	4,541	12,615
Other loans	413	11,594	163	12,170
Total	$ 454,424	$ 147,147	$ 48,813	$ 650,384

	Maturing	
	1 - 5 Years	Over 5 Years
	(Dollars in Thousands)	
Loans maturing after one year with:		
Fixed rate	$ 74,191	$ 47,598
Variable rate	72,956	1,215
Total	$ 147,147	$ 48,813

NONACCRUING, CONTRACTUALLY PAST DUE 90 DAYS OR MORE
OTHER THAN NONACCRUING AND RESTRUCTURED LOANS

	December 31				
	2002	2001	2000	1999	1998
	(Dollars in Thousands)				
Nonaccruing loans	$14,134	$6,327	$2,370	$1,280	$1,073
Loans contractually past due 90 days or more other than nonaccruing	6,676	4,828	2,483	2,826	2,334
Restructured loans	2,508	3,511	3,085	908	1,110

Nonaccruing loans are loans which are reclassified to a nonaccruing status when in management's judgment the collateral value and financial condition of the borrower do not justify accruing interest. Interest previously recorded, but not deemed collectible, is reversed and charged against current income. Interest income on these loans is then recognized when collected.

Restructured loans are loans for which the contractual interest rate has been reduced or other concessions are granted to the borrower, because of a deterioration in the financial condition of the borrower resulting in the inability of the borrower to meet the original contractual terms of the loans.

Interest income of $783,000 for the year ended December 31, 2002, was recognized on the nonaccruing and restructured loans listed in the table above, whereas interest income of $1,544,000 would have been recognized under their original loan terms.

Potential problem loans:

Management has identified certain other loans totaling $36,630,000 as of December 31, 2002, not included in the table above, or the impaired loan table in the footnotes to the consolidated financial statements, about which there are doubts as to the borrowers' ability to comply with present repayment terms.

The Corporation's affiliate banks generate commercial, mortgage and consumer loans from customers located primarily in north-central and east-central Indiana and Butler and Franklin counties in Ohio. The Banks' loans are generally secured by specific items of collateral, including real property, consumer assets, and business assets. Although the Banks have diversified loan portfolios, a substantial portion of their debtors' ability to honor their contracts is dependent upon economic conditions in the automotive and agricultural industries.

STATISTICAL DATA (continued)

SUMMARY OF LOAN LOSS EXPERIENCE

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

	2002	2001	2000	1999	1998
			(Dollars in Thousands)		
Allowance for loan losses:					
Balance at January 1....................	$ 15,141	$ 12,454	$ 10,128	$ 9,209	$ 8,429
Chargeoffs:					
Commercial and industrial(1)...........	4,711	1,688	974	361	794
Real estate mortgage(3)................	800	227	43	40	44
Individuals' loans for household and other personal expenditures, including other loans................	2,602	1,632	1,274	1,368	1,393
Total chargeoffs.....................	8,113	3,547	2,291	1,769	2,231
Recoveries:					
Commercial and industrial(2)...........	549	176	171	114	325
Real estate mortgage(4)................	92	32	1	32	20
Individuals' loans for household and other personal expenditures, including other loans................	672	365	407	301	294
Total recoveries.....................	1,313	573	579	447	639
Net chargeoffs...........................	6,800	2,974	1,712	1,322	1,592
Provisions for loan losses...............	7,174	3,576	2,625	2,241	2,372
Allowance acquired in purchase...........	6,902	2,085	1,413		
Balance at December 31...................	$22,417	$15,141	$12,454	$10,128	$ 9,209

(1)Category also includes the chargeoffs for bankers acceptances, loans to financial institutions, tax-exempt loans and agricultural production financing and other loans to farmers.
(2)Category also includes the recoveries for bankers acceptances, loans to financial institutions, tax-exempt loans and agricultural production financing and other loans to farmers.
(3)Category includes the chargeoffs for construction, commercial and farmland and residential real estate loans.
(4)Category includes the recoveries for construction, commercial and farmland and residential real estate loans.

	2002	2001	2000	1999	1998
Ratio of net chargeoffs during the period to average loans outstanding during the period..........	.37%	.23%	.16%	.14%	.18%

STATISTICAL DATA (continued)

Allocation of the Allowance for Loan Losses at December 31:

Presented below is an analysis of the composition of the allowance for loan losses and per cent of loans in each category to total loans:

	2002 Amount	2002 Per Cent	2001 Amount	2001 Per Cent
	(Dollars in Thousands)			
Balance at December 31:				
Commercial and industrial(1)	$ 12,405	31.2%	$ 6,884	28.8%
Real estate mortgage(2)	2,875	57.3	2,655	56.9
Individuals' loans for household and other personal expenditures, including other loans	7,037	11.5	5,502	14.3
Unallocated	100	N/A	100	N/A
Totals	$ 22,417	100.0%	$ 15,141	100.0%

	2000 Amount	2000 Per Cent	1999 Amount	1999 Per Cent
	(Dollars in Thousands)			
Balance at December 31:				
Commercial and industrial(1)	$ 4,478	28.0%	$ 3,347	27.8%
Real estate mortgage(2)	1,554	53.9	1,297	53.2
Individuals' loans for household and other personal expenditures, including other loans	4,622	18.1	3,914	19.0
Unallocated	1,800	N/A	1,570	N/A
Totals	$ 12,454	100.0%	$ 10,128	100.0%

	1998 Amount	1998 Per Cent
Balance at December 31:	(Dollars in Thousands)	
Commercial and industrial(1)	$ 2,954	27.3%
Real estate mortgage(2)	1,313	56.1
Individuals' loans for household and other personal expenditures, including other loans	3,514	16.6
Unallocated	1,428	N/A
Totals	$ 9,209	100.0%

(1) Category also includes the allowance for loan losses and per cent of loans for bankers acceptances, loans to financial institutions, tax-exempt loans and agricultural production financing and other loans to farmers.
(2) Category includes the allowance for loan losses and per cent of loans for construction, commercial and farmland and residential real estate loans.

STATISTICAL DATA (continued)
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Loan Administration and Loan Loss Chargeoff Procedures

Primary responsibility and accountability for day-to-day lending activities rests with the Corporation's affiliate banks. Loan personnel at each bank have the authority to extend credit under guidelines approved by the bank's board of directors. Executive and board loan committees active at each bank serve as vehicles for communication and for the pooling of knowledge, judgment and experience of its members. These committees provide valuable input to lending personnel, act as an approval body, and monitor the overall quality of the banks' loan portfolios. The Executive Committee of the Corporation's Board of Directors meets bimonthly to approve or disapprove all new loans in excess of $1,000,000. The Corporation also maintains a loan grading and review program for its affiliate banks, which includes quarterly reviews of problem loans, delinquencies and charge-offs. The purpose of this program is to evaluate loan administration, credit quality, loan documentation and the adequacy of the allowance for loan losses.

The Corporation maintains an allowance for loan losses to cover probable credit losses identified during its loan review process. The allowance is increased by the provision for loan losses and decreased by charge-offs less recoveries. All charge-offs are approved by the bank's senior loan officer and are reported to the Banks' Boards. The Banks charge off loans when a determination is made that all or a portion of a loan is uncollectible or as a result of examinations by regulators and the independent auditors.

Provision for Loan Losses

In banking, loan losses are one of the costs of doing business. Although the Banks' management emphasize the early detection and chargeoff of loan losses, it is inevitable that at any time certain losses exist in the portfolio which have not been specifically identified. Accordingly, the provision for loan losses is charged to earnings on an anticipatory basis, and recognized loan losses are deducted from the allowance so established. Over time, all net loan losses must be charged to earnings. During the year, an estimate of the loss experience for the year serves as a starting point in determining the appropriate level for the provision. However, the amount actually provided in any period may be greater or less than net loan losses, based on management's judgment as to the appropriate level of the allowance for loan losses. The determination of the provision in any period is based on management's continuing review and evaluation of the loan portfolio, and its judgment as to the impact of current economic conditions on the portfolio. The evaluation by management includes consideration of past loan loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding.

Impaired loans are measured by the present value of expected future cash flows, or the fair value of the collateral of the loans, if collateral dependent. Information on impaired loans is summarized below:

	2002	2001	2000
		(Dollars in Thousands)	
For the year ending December 31:			
Impaired loans with an allowance...................	$ 16,901	$ 10,381	$ 7,862
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan.......................	27,450	10,780	6,977
Total impaired loans.........................	$ 44,351	$ 21,161	$ 14,839
Allowance for impaired loans (included in the Corporation's allowance for loan losses).........	$ 7,299	$ 3,251	$ 2,253
Average balance of impaired loans..................	49,663	22,327	15,053
Interest income recognized on impaired loans.......	3,656	1,538	1,361
Cash basis interest included above.................	2,344	1,555	1,080

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STATISTICAL DATA (continued)

DEPOSITS

The average balances, interest income and expense and average rates on deposits for the years ended December 2002, 2001 and 2000 are presented within the distribution of assets, liabilities and stockholders' equity table on page 11 of this Form 10-K.

As of December 31, 2002, certificates of deposit and other time deposits of $100,000 or more mature as follows:

	Maturing				
	3 Months or less	3-6 Months	6-12 Months	Over 12 Months	Total
	(Dollars in Thousands)				
Certificates of deposit and other time deposits..........	$ 69,737	$ 19,601	$ 26,319	$ 84,077	$199,734
Per cent......................	35%	10%	13%	42%	100%

RETURN ON EQUITY AND ASSETS

The information regarding return on equity and assets is presented on page 2 of the Corporation's 2002 Annual Report to Stockholders - Financial Review under the caption "Five - Year Summary of Selected Financial Data" within Exhibit 13 of this Form 10-K.

SHORT-TERM BORROWINGS

	2002	2001	2000
	(Dollars in Thousands)		
Balance at December 31:			
Securities sold under repurchase agreements (short-term portion)........	$ 65,962	$ 22,732	$ 31,956
Federal funds purchased..................		10,500	975
U.S. Treasury demand notes...............		6,273	4,968
Total short-term borrowings.........	$ 65,962	$ 39,505	$ 37,899

Securities sold under repurchase agreements are borrowings maturing within one year and are secured by U.S. Treasury and Federal agency obligations.

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

	2002	2001	2000
	(Dollars in Thousands)		
Weighted average interest rate on outstanding balance at December 31:			
Securities sold under repurchase agreements(short-term portion)..............	1.1%	3.3%	6.2%
Total short-term borrowings.....................	1.1	2.4	5.6
Weighted average interest rate during the year:			
Securities sold under repurchase agreements (short-term portion).............	1.4%	3.7%	5.6%
Total short-term borrowings.....................	1.3	4.0	5.0
Highest amount outstanding at any month end during the year:			
Securities sold under repurchase agreements (short-term portion).............	$ 54,375	$ 17,750	$ 14,505
Total short-term borrowings.....................	67,984	46,195	56,099
Average amount outstanding during the year:			
Securities sold under repurchase agreements (short-term portion).............	$ 41,241	$ 14,036	$ 12,116
Total short-term borrowings.....................	49,886	22,126	33,165

ITEM 2. PROPERTIES.

The headquarters of the Corporation and First Merchants are located in a five-story building at 200 East Jackson Street, Muncie, Indiana. The building is owned by First Merchants.

The Corporation's affiliate banks conduct business through numerous facilities owned and leased by the respective affiliate banks. Of the 70 banking offices operated by the Corporation's affiliate banks, 55 are owned by the respective banks and 15 are leased from non-affiliated third parties.

None of the properties owned by the Corporation's affiliate banks are subject to any major encumbrances. The net investment of the Corporation and subsidiaries in real estate and equipment at December 31, 2002 was $38,645,000.

ITEM 3. LEGAL PROCEEDINGS.

There is no pending legal proceeding, other than ordinary routine litigation incidental to the business of the Corporation or its subsidiaries, of a material nature to which the Corporation or its subsidiaries is a party or of which any of their properties are subject. Further, there is no material legal proceeding in which any director, officer, principal shareholder, or affiliate of the Corporation, or any associate of any such director, officer or principal shareholder, is a party, or has a material interest, adverse to the Corporation or any of its subsidiaries.

None of the routine legal proceedings, individually or in the aggregate, in which the Corporation or its affiliates are involved are expected to have a material adverse impact on the financial position or the results of operations of the Corporation.

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

No matters were submitted during the fourth quarter of 2002 to a vote of security holders, through the solicitation of proxies or otherwise.

SUPPLEMENTAL INFORMATION - EXECUTIVE OFFICERS OF THE REGISTRANT.

The names, ages, and positions with the Corporation and subsidiary banks of all executive officers of the Corporation and all persons chosen to become executive officers are listed below.

Name and Age	Offices with the Corporation And Subsidiary Banks	Principal Occupation During Past Five Years
Michael L. Cox 58	President, Chief Executive Officer Corporation	Chief Executive Officer of the Corporation since April 1999; President First Merchants from April 1999 to September 2000; President and Chief Operating Officer, Corporation since August 1998 and May, 1994 to April 1999 respectively; President and Chief Operating Officer, First Merchants from April, 1996 to April 1999; Director, Corporation and First Merchants since December, 1984.
Roger M. Arwood 51	Executive Vice President and Chief Operating Officer, Corporation	Chief Operating Officer of the Corporation since August 2002; President and Chief Executive Officer First Merchants from September 2000 to August 2002; Bank of America from 1983 to February 2000; Executive Vice President of the Corporation since February of 2000.
Robert R. Connors 53	Senior Vice President of Operations and Technology, Corporation and First Merchants	Senior Vice President of Operations and Technology, Corporation and First Merchants since August 2002; Senior Vice President of Operations and Compliance Officer at First Internet Bank of Indiana from 1999 to 2002; Senior Vice President of Operations and Chief Information Officer at Peoples Bank & Trust Company from 1984 to 1999.
Larry R. Helms 62	Senior Vice President, General Counsel and Secretary, Corporation	Senior Vice President and General Counsel, Corporation since 1982 and Secretary since January 1997; Senior Vice President, First Merchants from January 1979 to 2002; Director of First United Bank from 1991 to 2002 and Pendleton Banking Company from 1992 to 2002.
Mark K. Hardwick 32	Senior Vice President and Chief Financial Officer, Corporation	Senior Vice President and Chief Financial Officer of the Corporation since April of 2002; Corporate Controller, Corporation from November 1997 to April 2002; Senior Accountant, Geo. S. Olive & Company from September 1994 to October 1997.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information required under this item is incorporated by reference to pages 53 and 54 of the Corporation's 2002 Annual Report to Stockholders under the captions "Stock Information" and "Common Stock Listing", Exhibit 13.

ITEM 6. SELECTED FINANCIAL DATA.

The information on page 2 of the Corporation's 2002 Annual Report to Stockholders - Financial Review under the caption "Five-Year Summary of Selected Financial Data", is expressly incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information on page 3 through 17 of the Corporation's 2002 Annual Report to Stockholders - Financial Review under the caption "Management's Discussion & Analysis of Financial Condition and Results of Operations", is expressly incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE 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 review how changes in interest rates may 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.

Management believes that the Corporation's liquidity and interest sensitivity position at December 31, 2002, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk. The following table presents the Corporation's interest rate sensitivity analysis as of December 31, 2002.

INTEREST RATE SENSITIVITY ANALYSIS

(dollars in thousands)	At December 31, 2002				
	1-180 DAYS	181-365 DAYS	1-5 YEARS	BEYOND 5 YEARS	TOTAL
Rate-Sensitive Assets:					
Federal funds sold and interest-bearing deposits	$ 34,968				$ 34,968
Investment securities	27,765	$ 12,136	$ 85,429	$ 216,732	342,062
Loans	850,254	195,160	661,945	318,563	2,025,922
Federal Reserve and Federal Home Loan Bank stock	11,409				11,409
Total rate-sensitive assets	924,396	207,296	747,374	535,295	2,414,361
Rate-Sensitive Liabilities:					
Interest-bearing deposits	723,470	494,076	494,077	52,937	1,764,560
Securities sold under repurchase agreements	65,962		23,632		89,594
Other short-term borrowings	10,168				10,168
Federal Home Loan Bank advances	7,807	7,819	67,398	101,653	184,677
Trust preferred securities				53,188	53,188
Other borrowed funds	19,300				19,300
Total rate-sensitive liabilities	826,707	501,895	585,107	207,778	2,121,487
Interest rate sensitivity gap by period	$ 97,689	$ (294,599)	$ 162,267	$ 327,517	
Cumulative rate sensitivity gap	97,689	(196,910)	(34,643)	292,874	
Cumulative rate sensitivity gap ratio					
at December 31, 2002	111.8%	85.2%	98.2%	113.8%	
at December 31, 2001	135.4%	97.6%	109.7%	116.9%	

The Corporation had a cumulative negative gap of $196,910,000 in the one-year horizon at December 31, 2002, just over 7.4 percent of total assets. Net interest income at financial institutions with negative gaps tends to increase when rates decrease and decrease as interest rates increase.

The Corporation places its greatest credence in net interest income simulation modeling. The GAP/Interest Rate Sensitivity Report is believed by the Corporation's management 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.

Net interest income simulation modeling, or earnings-at-risk, measures the sensitivity of net interest income to various interest rate movements. The Corporation's asset liability process monitors simulated net interest income under three separate interest rate scenarios; base, rising and falling. Estimated net interest income for each scenario is calculated over a 12-month horizon. The immediate and parallel changes to the base case scenario used in the model are presented below. The interest rate scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings of the Corporation.

The base scenario is highly dependent on numerous assumptions embedded in the model, including assumptions related to future interest rates. While the base sensitivity analysis incorporates management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. For mortgage-related assets, the base simulation model captures the expected prepayment behavior under changing interest rate environments. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity products, e.g., savings, money market, NOW and demand deposits reflect management's best estimate of expected future behavior.

The comparative rising and falling scenarios for the period ended December 31, 2003 assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management in the base simulation for the period ended December 31, 2003 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(50) Basis Points
Federal Funds	200	(50)
One-Year T-Bill	200	(20)
Two-Year T-Bill	200	(59)
Interest Checking	100	--
MMIA Savings	100	--
First Flex	100	(25)
CD's	200	(53)
FHLB Advances	200	(66)

Results for the base, rising and falling interest rate scenarios are listed below, based upon the Corporation's rate sensitive assets at December 31, 2002. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	BASE	RISING	FALLING
Net Interest Income (dollars in thousands)	$105,138	$113,855	$ 98,793
Variance from base		$ 8,717	$ (6,345)
Percent of change from base		8.29%	(6.03)%

The comparative rising and falling scenarios for the year ended December 31, 2002 assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case senario. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management in the base simulation for the year ended December 31, 2002 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(150)Basis Points
Federal Funds	200	(100)
One-Year T-Bill	200	(100)
Two-Year T-Bill	200	(100)
Interest Checking	100	(25)
MMIA Savings	75	(25)
Money Market Index	200	(100)
CD's	170	(130)
FHLB Advances	200	(100)

Results for the base, rising and falling interest rate scenarios are listed below, based upon the Corporation's rate sensitive assets at December 31, 2001. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	BASE	RISING	FALLING
Net Interest Income (dollars in thousands)	$ 74,029	$ 74,356	$ 71,540
Variance from base		$ 327	$ (2,489)
Percent of change from base		.44%	(3.36)%

Item 7A. includes forward-looking statements. Readers are cautioned that, by their nature, forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from the expectations of the Corporation that are expressed or implied by any forward-looking statement. Factors that could cause the Corporation's actual results to vary materially from those expressed or implied by any forward-looking statements include the effects of competition, technological changes and legal and regulatory developments; acquisitions of other businesses by the Corporation and integration of such acquired businesses; changes in fiscal, monetary and tax policies; market, economic, operational, liquidity, credit and interest rate risks associated with the Corporation's business; inflation; competition in the financial services industry; changes in general economic conditions, either nationally or regionally, resulting in, among other things, credit quality deterioration; changes in the securities markets; and the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends. Investors should consider these risks, uncertainties, and other factors in addition to those mentioned by the Corporation from time to time in the Corporation's other SEC reports when considering any forward-looking statement.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Pages 18 through 51 of the Corporation's 2002 Annual Report to Stockholders - Financial Review, are expressly incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

In connection with its audits for the two most recent fiscal years ended December 31, 2002, there have been no disagreements with the Corporation's independent certified public accountants on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure, nor have there been any changes in accountants.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information in the Corporation's Proxy Statement dated February 25, 2003 furnished to its stockholders in connection with an annual meeting to be held April 10, 2003 (the "2003 Proxy Statement"), under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance", is expressly incorporated herein by reference. The information required under this item relating to executive officers is set forth in Part I, "Supplemental Information - Executive Officers of the Registrant" of this annual report on Form 10-K and is expressly incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information in the Corporation's 2003 Proxy Statement, under the captions, "Compensation of Directors", "Compensation of Executive Officers", "Compensation and Human Resources Committee Interlocks and Insider Participation", "Compensation and Human Resources Committee Report on Executive Compensation" and "Performance Graph," is expressly incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information in the Corporation's 2003 Proxy Statement, under the caption, "Security Ownership of Certain Beneficial Owners and Management," is expressly incorporated herein by reference.

The following table presents information relating to securities aurthorized under equity compensation plans.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensations plans (excluding securities reflected in column (a)
Equity compensation plans approved by stockholders	771,589	$ 20.78	195,217
Equity compensation plans not approved by stockholders	30,871	21.65	
Total	802,460	$ 20.81	195,217

The only plan reflected above that was not approved by the Corporation's stockholders relates to certain First Merchants Corporation Stock Option Agreements ("Agreements"). These Agreements provide for non-qualified stock options of the common stock of the Corporation to be granted to each director of First Merchants Bank, National Association (the "Bank") who, on the date of the grant: (a) is serving as a director of the Bank; (b) is not an employee of the Corporation, the Bank, or any of the Corporation's other affiliated banks or non-bank subsidiaries; and (c) is not serving as a director of the Corporation. The exercise price of the shares is equal to the fair market value of the shares upon the grant of the option. Options become 100 percent vested when granted and are fully exercisable six months after the date of the grant, for a period of ten years.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information in the Corporation's 2003 Proxy Statement, under the caption "Interest of Management in Certain Transactions," is expressly incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

Within the 90 days prior to the filing date of this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Corporation reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out this evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) 1. Financial Statements:
- Independent accountants' report
- Consolidated balance sheets at December 31, 2002 and 2001
- Consolidated statements of income, years ended December 31, 2002, 2001 and 2000
- Consolidated statements of comprehensive income, years ended December 31, 2002, 2001 and 2000
- Consolidated statements of stockholders' equity, years ended December 31, 2002, 2001 and 2000
- Consolidated statements of cash flows, years ended December 31, 2002, 2001 and 2000
- Notes to consolidated financial statements

(a) 2. Financial statement schedules:
All schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or related notes.

(a) 3. Exhibits:

Exhibit No:	Description of Exhibits:
2	Agreement of Reorganization and Merger between First Merchants Corporation and CNBC Bancorp dated August 28, 2002. (Incorporated by reference to registrant's Form 8-K filed on August 28, 2002)
3a	First Merchants Corporation Articles of Incorporation. (Incorporated by reference to registrant's Form 10-Q for quarter ended June 30, 1999)
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10l	First Merchants Corporation 1999 Long-Term Equity Incentive Plan, as amended.(1)(2)
13	2002 Annual Report to Stockholders-Financial Review (except for the pages and information expressly incorporated by reference in this Form 10-K, the Annual Report to Stockholders-Financial Review is provided solely for the information of the Securities and Exchange Commission and is not deemed "filed" as part of this Form 10-K(2)
21	Subsidiaries of Registrant(2)
23	Consent of Independent Accountants(2)
24	Limited Power of Attorney(2)
99.1	Financial statements and independent accountants' report for First Merchants Corporation Employee Stock Purchase Plan (See Exhibit 13 to this Form 10-K)(2)
99.2	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002(2)

(1) Management contract or compensatory plan.
(2) Filed here within.
(3) Incorporated by reference to the registrant's Form 8-K filed on April 19, 2002.

(b) Reports on Form 8-K:

NONE

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 28th day of March, 2003.

FIRST MERCHANTS CORPORATION

By /s/ Michael L.Cox

Michael L. Cox, President
& Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities indicated, on this 28th day of March, 2003.

/s/ Michael L. Cox	Michael L. Cox	President and Chief Executive Officer (Principal Executive Officer)	/s/Mark K. Hardwick	Mark K. Hardwick	Sr. Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Stefan S. Anderson*	Stefan S. Anderson	Director	/s/ Michael L. Cox	Michael L. Cox	Director
/s/Roger M. Arwood*	Roger M. Arwood	Director		Barry J. Hudson	Director
/s/ James F. Ault*	James F. Ault	Director	/s/ Robert T. Jeffares*	Robert T. Jeffares	Director
/s/ Dennis A. Bieberich*	Dennis A. Bieberich	Director	/s/ Norman M. Johnson*	Norman M. Johnson	Director
/s/Richard A. Boehning*	Richard A. Boehning	Director	/s/ George A. Sissel*	George A. Sissel	Director
/s/ Blaine M. Brownell*	Blaine M. Brownell	Director		Robert M. Smitson	Director
	Frank A. Bracken	Director	/s/ Dr. John E. Worthen*	Dr. John E. Worthen	Director
/s/ Thomas B. Clark*	Thomas B. Clark	Director			

* By Mark K. Hardwick as Attorney-in Fact pursuant to a limited Power of Attorney executed by the directors listed above, which Power of Attorney is being filed with the Securities and Exchange Commission as an exhibit hereto.

By /s/ Mark K. Hardwick

Mark K. Hardwick
As Attorney-in-Fact
March 28, 2003

FIRST MERCHANTS CORPORATION

FORM 10-K
CERTIFICATIONS PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Michael L. Cox, certify that:

1. I have reviewed this annual report on Form 10-K of First Merchants Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

by: /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

CERTIFICATION

I, Mark K. Hardwick, certify that:

1. I have reviewed this annual report on Form 10-K of First Merchants Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

by: /s/ Mark K. Hardwick

Mark K. Hardwick
Senior Vice President and
Chief Financial Officer
(Principal Financial and Chief
Accounting Officer)

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(1) Management contract or compensatory plan.
(2) Filed here within.
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EXHIBIT-10L

FIRST MERCHANTS CORPORATION 1999 LONG-TERM EQUITY INVENTIVE PLAN, AS AMENDED

Exhibit 10l--FIRST MERCHANTS CORPORATION 1999 LONG-TERM EQUITY INCENTIVE PLAN

ARTICLE I

ESTABLISHMENT AND PURPOSE

Section 1.01. Establishment and Term of Plan. First Merchants Corporation, an Indiana corporation (the "Company"), hereby establishes the First Merchants Corporation 1999 Long-Term Equity Incentive Plan (the "Plan"), effective as of April 14, 1999, subject to the approval of the Plan at the Company's 1999 annual meeting of shareholders by the holders of a majority of the shares of the Company's common stock present and voting at that meeting in person or by proxy.

Section 1.02. Purpose. The Plan is designed to promote the interests of the Company, its subsidiaries, and its shareholders by providing stock-based incentives to selected Employees, Non-Employee Directors, Subsidiary Directors and Advisory Directors who are expected to contribute materially to the success of the Company and its subsidiaries. The purpose of the Plan is to provide a means of rewarding performance and to provide an opportunity to increase the personal ownership interest of Employees, Non-Employee Directors, Subsidiary Directors and Advisory Directors in the continued success of the Company. The Company believes that the Plan will assist its efforts to attract and retain quality Employees, Non-Employee Directors, Subsidiary Directors and Advisory Directors.

ARTICLE II

ADMINISTRATION

Section 2.01. Administrative Committee. The Plan shall be administered by the Committee, which shall serve at the pleasure of the Board of Directors. The Committee shall have full authority to administer the Plan, including authority to interpret and construe any provision of the Plan and to adopt such rules and regulations for administering the Plan as it may deem necessary to comply with the requirements of the Plan or any applicable law.

Section 2.02. Powers of the Committee. The Committee shall, subject to the terms of this Plan, have the authority to: (i) select the eligible Employees, Subsidiary Directors and Advisory Directors who shall receive Awards, (ii) grant Awards, (iii) determine the types and sizes of Awards to be granted to Employees, Subsidiary Directors and Advisory Directors under the Plan (but not to Non-Employee Directors, who shall receive Director Options in accordance with Article VI of this Plan), (iv) determine the terms, conditions, vesting periods, and restrictions applicable to Awards (other than Director Options), (v) adopt, alter, and repeal administrative rules and practices governing this Plan, (vi) interpret the terms and provisions of this Plan and any Awards granted under this Plan, (vii) prescribe the forms of any Award Agreements or other instruments relating to Awards, and (viii) otherwise supervise the administration of this Plan. The Committee may delegate any of its authority to any other person or persons that it deems appropriate with respect to Awards granted to Employees who are not officers of the Company.

Section 2.03. Actions of the Committee. All actions taken and all interpretations and determinations made in good faith by the Committee, or made by any other person or persons to whom the Committee has delegated authority, shall be final and binding upon all Participants, the Company, and all other interested persons. All decisions by the Committee shall be made with the approval of not less than a majority of its members. Members of the Committee who are eligible for Awards may vote on any matters affecting the administration of the Plan or the grant of any Awards pursuant to the Plan, except that no such member shall act upon the granting of an Award to himself or herself; but any such member may be counted in determining the existence of a quorum of the Committee.

ARTICLE III

ELIGIBILITY

Section 3.01. Employees, Subsidiary Directors and Advisory Directors. Any Employee of the Company or any of its Subsidiaries who is selected by the Committee to be a Participant under the Plan, and any Subsidiary Director or Advisory Director, shall be eligible for the grant of Awards (other than Director Options). The selection of the Employees, Subsidiary Directors and Advisory Directors to receive Awards (other than Director Options) shall be within the discretion of the Committee. More than one Award may be granted to the same Employee, Subsidiary Director or Advisory Director.

Section 3.02. Non-Employee Directors. All Non-Employee Directors are eligible for the grant of Director Options, as provided in Article VI of this Plan. Non-Employee Directors are not, however, eligible for the grant of any Awards other than Director Options.

ARTICLE IV

SHARES SUBJECT TO AWARDS

Section 4.01. Number of Common Shares. The shares subject to the Awards and other provisions of the Plan shall be the Company's authorized but unissued, or reacquired Common Shares. The aggregate number of Common Shares that may be subject to Awards granted under this Plan in any fiscal year shall be equal to the sum of (i) one percent (1%) of the number of Common Shares Outstanding as of the last day of the Company's prior fiscal year, plus (ii) the number of Common Shares that were available for the grant of Awards, but not granted, under this Plan in any previous fiscal year; provided that in no event will the number of Common Shares available for the grant of Awards in any fiscal year exceed one-and-one-half percent (1 1/2%) of the Common Shares Outstanding as of the last day of the prior fiscal year. The aggregate number of Common Shares that may be issued under the Plan upon the exercise of Incentive Stock Options is 1,200,000, as adjusted pursuant to Section 4.02. No fractional shares shall be issued under this Plan; if necessary, the Committee shall determine the manner in which the value of fractional shares will be treated.

The assumption of awards granted by an organization acquired by the Company, or the grant of Awards under this Plan in substitution for any such awards, shall not reduce the number of Common Shares available for the grant of Awards under this Plan. Common Shares subject to an Award that is forfeited, terminated or canceled without having been exercised shall again be available for grant under this Plan, subject to the limitations noted in the foregoing paragraph of this Section 4.01.

Section 4.02. Adjustment. In the event of any change in the Common Shares by reason of a merger, consolidation, reorganization, recapitalization or similar transaction, or in the event of a stock split, stock dividend or distribution to shareholders (other than normal cash dividends), spin-off or any other change in the corporate structure of the Company, the Committee shall adjust the number and class of shares that may be issued under this Plan, the aggregate number of Common Shares that may be issued under the Plan upon the exercise of Incentive Stock Options, the number and class of shares subject to outstanding Awards, the exercise price applicable to outstanding Awards, and the Fair Market Value of the Common Shares and other value determinations applicable to outstanding Awards, as appropriate. All determinations made by the Committee with respect to adjustments under this Section 4.02 shall be conclusive and binding for all purposes of the Plan.

ARTICLE V

AWARDS

Section 5.01. Grant of Awards. Awards authorized under this Article V may be granted pursuant to another incentive program which incorporates by reference the terms and conditions of this Plan. Awards may be granted singly or in combination or tandem with other Awards. Awards may also be granted in replacement of, or in substitution for, other awards granted by the Company whether or not such other awards were granted under this Plan; without limiting the foregoing, if a Participant pays all or part of the exercise price or taxes associated with an Award by the transfer of Common Shares or the surrender of all or part of an Award (including the Award being exercised), the Committee may, in its discretion, grant a new Award to replace the Common Shares that were transferred or the Award that was surrendered. The Company may assume awards granted by an organization acquired by the Company or may grant Awards in replacement of, or in substitution for, any such awards.

Section 5.02. Types of Awards. Awards may include, but are not limited to, the following:

(a) Director Option. A right to purchase Common Shares granted to a Non-Employee Director pursuant to Article VI of this Plan.

(b) Stock Award. An Award that is made in Common Shares or Restricted Stock or that is otherwise based on, or valued in whole or in part by reference to, the Common Shares. All or part of any Stock Award may be subject to conditions, restrictions and risks of forfeiture, as and to the extent established by the Committee. Stock Awards may be based on the Fair Market Value of the Common Shares, or on other specified values or methods of valuation, as determined by the Committee.

(c) Stock Option. A right to purchase a specified number of Common Shares, during a specified period and at a specified exercise price, all as determined by the Committee. A Stock Option may be an Incentive Stock Option or a Non-Qualified Stock Option. Incentive Stock Options may only be issued to Employees. In addition to the terms, conditions, vesting periods, and restrictions established by the Committee in the Award Agreement, Incentive Stock Options must comply with the requirements of Section 422 of the Code, Section 5.03(f), and this Article V.

Section 5.03. Terms and Conditions of Awards; Agreements. Awards granted under the Plan shall be evidenced by an Award Agreement executed by the Company and the Participant, which shall contain such terms and be in such form as the Committee may from time to time approve, subject to the following limitations and conditions:

(a) Number of Shares. The Award Agreement shall state, as appropriate, the type and total number of shares granted, and/or the type and total number of shares with respect to which Stock Options are granted.

(b) Award Prices. The Award Agreement shall state, as applicable, the price per share of the Common Shares with respect to which Stock Options are issued. The price or other value shall be determined by the Committee. For Incentive Stock Options, the exercise price shall satisfy all of the requirements of the Code and of Section 5.03(f) of this Plan.

(c) Payment of Exercise Price; Deferral. The exercise price of a Stock Option (other than an Incentive Stock Option), Director Option, and any Stock Award for which the Committee has established an exercise price, may be paid in cash, by the transfer of Common Shares, by the surrender of all or part of an Award (including the Award being exercised), or by a combination of these methods, as and to the extent permitted by the Committee. The exercise price of an Incentive Stock Option may be paid in cash, by the transfer of Common Shares, or by a combination of these methods, as and to the extent permitted by the Committee at the time of grant, but may not be paid by the surrender of all or part of an Award. The Committee may prescribe any other method of paying the exercise price that it determines to be consistent with applicable law and the purpose of this Plan.

With the approval of the Committee, the delivery of the Common Shares, cash, or any combination thereof subject to an Award (other than Director Options) may be deferred, either in the form of installments or a single future delivery. The Committee may also permit selected Participants to defer the payment of some or all of their Awards, as well as other compensation, in accordance with procedures established by the Committee to assure that the recognition of taxable income is deferred under the Code. The Committee may also establish rules and procedures for the crediting of interest on deferred cash payments and dividend equivalents on Awards.

(d) Issuance of Shares and compliance with Securities Laws. The Company may postpone the issuance and delivery of certificates representing shares until (a) the admission of such shares to listing on any stock exchange on which shares of the Company of the same class are then listed, and (b) the completion of such registration or other qualification of such shares under any state or federal law, rule or regulation as the Company shall determine to be necessary or advisable, which registration or other qualification the Company shall use it best efforts to complete; provided, however, a person purchasing shares pursuant to the Plan has no right to require the Company to register the Common Shares under federal or state securities laws at any time. Any person purchasing shares pursuant to the Plan may be required to make such representations and furnish such information as may, in the opinion of counsel for the Company, be appropriate to permit the Company, in light of the existence or non-existence with respect to such shares of an effective registration under the Securities Act of 1933, as amended, or any similar state statute, to issue the shares in compliance with the provisions of those or any comparable acts.

(e) Rights as a Shareholder. Unless otherwise provided by the Board of Directors or the Committee, a Participant shall have rights as a shareholder with respect to shares covered by an Award, including voting rights or rights to dividends, only upon the date of issuance of a certificate to him or her, and, if payment is required, only after such shares are fully paid.

(f) Incentive Stock Options. To the extent any Award granted pursuant to this Plan contains an Incentive Stock Option, the following limitations and conditions shall apply to such Incentive Stock Option and the Award Agreement relating thereto in addition to the terms and conditions provided herein:

(i) Price. The price of an Incentive Stock Option shall be an amount per share not less than the Fair Market Value per share of the Common Shares on the date of granting of the option. In the case of Incentive Stock Options granted to an Employee of the Company who is a 10% shareholder, the option price shall be an amount per share not less than one hundred ten percent (110%) of the Fair Market Value per share of the Common Shares on the date of the granting of the Incentive Stock Option.

(ii) Exercise Period. Unless terminated earlier pursuant to other terms and provisions of the Award Agreement, the term of each Incentive Stock Option shall expire within the period prescribed in the Agreement relating thereto, which shall not be more than five (5) years from the date the Incentive Stock Option is granted if the Participant is a ten percent (10%) shareholder, and not more than ten (10) years from the date the Incentive Stock Option is granted if the Participant is not a ten percent (10%) shareholder.

(iii) Limitation on Grants. No Incentive Stock Option shall be granted under this Plan after April 14, 2009.

(iv) Limitation on Transferability. No Incentive Stock Option shall be assignable or transferable except by will or under the laws of descent and distribution. During the lifetime of a Participant, the Incentive Stock Option shall be exercisable only by the Participant and may not be transferred or assigned pursuant to a qualified domestic relations order.

(v) Maximum Exercise Rule. The aggregate Fair Market Value (determined at the time the option is granted) of the shares with respect to which Incentive Stock Options are exercisable for the first time by an Employee during any calendar year under all such plans of the Company and any parent or Subsidiary of the Company shall not exceed One Hundred Thousand Dollars ($100,000).

(g) Termination of Awards Under Certain Conditions. The Committee may cancel any unexpired, unpaid or deferred Awards at any time, if the Participant is not in compliance with all applicable provisions of this Plan or with any Award Agreement, or if the Participant, whether or not he or she is currently employed by the Company, engages in any of the following activities without the prior written consent of the Company:

(i) Directly or indirectly renders services to or for an organization, or engages in a business that is, in the judgment of the Committee, in competition with the Company.

(ii) Discloses to anyone outside of the Company, or uses for any purpose other than the Company's business, any confidential or proprietary information or material relating to the Company, whether acquired by the Participant during or after employment with the Company.

The Committee may, in its discretion and as a condition to the exercise of an Award, require a Participant to acknowledge in writing that he or she is in compliance with all applicable provisions of this Plan and of any Award Agreement and has not engaged in any activities referred to in clauses (i) and (ii) above.

(h) Nontransferability. Unless otherwise determined by the Committee and provided in the Award Agreement, (i) no Award granted under this Plan may be transferred or assigned by the Participant to whom it is granted other than by will, pursuant to the laws of descent and distribution, or pursuant to a qualified domestic relations order, and (ii) an Award granted under this Plan may be exercised, during the Participant's lifetime, only by the Participant or by the Participant's guardian or legal representative.

Section 5.04. Election to Defer Grant or Receipt of Award. Notwithstanding any provision herein to the contrary, the Committee may provide, in any Award Agreement or in any program granting Awards under this Plan, that the Participant may elect to defer receipt of the Award as provided in the Award Agreement or program.

ARTICLE VI

DIRECTOR OPTIONS

Section 6.01. Grant of Director Options.

(a) Administration. A committee formed by only those Directors other than Non-Employee Directors shall have full authority to administer Director Options, including authority to require that any Non-Employee Director sign an Award Agreement as a condition of receiving a Director Option.

(b) Granting of Director Options. Until this Plan is terminated, each individual serving as a Non-Employee Director on July 1 in any year after 1998 shall automatically receive a Director Option, effective on such date.

Section 6.02. Number of Common Shares Subject to Each Director Option. Each Director Option shall entitle the Non-Employee Director the right to purchase one thousand (1,000) Common Shares on the terms and conditions specified herein.

Section 6.03. Exercise Price. The exercise price of the Common Shares subject to each Director Option shall be the Fair Market Value of the Common Shares at the date of grant.

Section 6.04. Date Director Options Become Exercisable. Unless otherwise established by the Board of Directors, each Director Option shall become exercisable in full six (6) months after the date of grant; provided, however, all Director Options shall become exercisable in full (i) upon a Change of Control, (ii) in accordance with the terms of Section 6.06, or (iii) upon attainment by the Non-Employee Director of age 70.

Section 6.05. Expiration Date. Unless terminated earlier pursuant to the terms of this Plan, each Director Option shall terminate, and the right of the holder to purchase Common Shares upon exercise of the Director Option shall expire, at the close of business on the tenth anniversary date of the date of grant.

Section 6.06. Continuous Service as a Director. No Director Option may be exercised unless the Non-Employee Director to whom the Director Option was granted has continued to be a Non-Employee Director from the time of grant through the time of exercise, except as provided in Section 6.04 and this Section 6.06.

(a) Retirement or Disability. If the service in office of a Non-Employee Director is terminated due to the retirement or Disability of the Non-Employee Director, the Non-Employee Director (or his or her legal representative if he or she becomes incapacitated), shall have the right, on or after the date of such termination but in no event following the expiration of the Director Option, to exercise the Director Option in full, whether or not the Non-Employee Director would otherwise have been entitled to exercise the Director Option at such date.

(b) Death. If the service in office of a Non-Employee Director is terminated due to the death of the Non-Employee Director, the Non-Employee Director's estate, executor, administrator, personal representative or beneficiary shall have the right to exercise the Director Option in full prior to the earlier of (i) one (1) year after the date of his or her death, and (ii) the expiration of the Director Option.

(c) Employed by Company. If a Non-Employee Director ceases to be a Non-Employee Director by reason of his or her employment by the Company or his or her appointment as a Subsidiary Director or Advisory Director, the Director Option granted to that Non-Employee Director shall be treated the same as Non-Qualified Stock Options held by Employees, Subsidiary Directors or Advisory Directors, whichever is applicable, and shall continue to be exercisable prior to the expiration of the Director Option, subject to the limitations on exercise following termination of employment, or termination of service as a Subsidiary Director or Advisory Director, established by the Committee pursuant to Article VIII of this Plan.

ARTICLE VII

TAX WITHHOLDING OBLIGATIONS

Prior to the payment of an Award, the Company may withhold, or require a Participant to remit to the Company, an amount sufficient to pay any federal, state and local withholding taxes associated with the Award. The Committee may, in its discretion and subject to such rules as the Committee may adopt, permit a Participant to pay any or all withholding taxes associated with the Award in cash, by the transfer of Common Shares, by the surrender of all or part of an Award (including the Award being exercised), or by a combination of these methods.

ARTICLE VIII

TERMINATION OF EMPLOYMENT OR TERMINATION OF SERVICE AS SUBSIDIARY DIRECTOR OR ADVISORY DIRECTOR

Section 8.01. Termination of Employment. Unless the Committee provides otherwise in the Award Agreement, if a Participant's employment with the Company or a Subsidiary terminates for any reason other than Retirement, Disability or death of the Participant, he or she may, but only within the thirty (30)-day period immediately following such termination of employment, and in no event later than the expiration date specified in the Award Agreement, exercise his or her Award to the extent that he or she was entitled to exercise it at the date of such termination; provided, however, if a Participant's employment is terminated for deliberate, willful or gross misconduct, as determined by the Board of Directors, all rights under the Award shall expire upon receipt of the notice of such termination. The transfer of an Employee from the employ of the Company to a Subsidiary, or vice versa, or from one Subsidiary to another Subsidiary, shall not be deemed a termination of employment for purposes of the Plan.

Section 8.02. Retirement or Disability. Unless the Committee provides otherwise in the Award Agreement, if a Participant's employment with the Company or any Subsidiary, or his or her service as a Subsidiary Director or Advisory Director, terminates due to Retirement or Disability, the Participant (or his or her legal representative if he or she becomes incapacitated) may, on or after the date of such termination but in no event later than the expiration date of the Award, exercise in full each Award granted to the Participant prior to such termination, whether or not the Participant would otherwise have been entitled to exercise the Award at such date. However, if the Award being exercised under this Section is an Incentive Stock Option, it may be exercised as such only during (i) the three (3) month period immediately following a termination due to Retirement, or (ii) during the one (1) year period immediately following a termination due to Disability (but in no event later than the expiration date of the Award). During the remainder of the exercise period, if any, the option may be exercised as a Non-Qualified Stock Option.

Section 8.03. Death. Unless the Committee provides otherwise in the Award Agreement, if a Participant dies (whether prior to or after termination of employment or termination of service as a Subsidiary Director or Advisory Director), the Participant's estate, executor, administrator, personal representative or beneficiary may, within the one (1) year period immediately following the Participant's death but in no event later than the expiration date of the Award, exercise in full each Award granted to the Participant prior to his or her death, whether or not the Participant would otherwise have been entitled to exercise the Award at such date. If the Award being exercised under this Section is an Incentive Stock Option and the Participant dies prior to termination of employment or within three (3) months following such termination, the Award may continue to be exercised as an Incentive Stock Option during the entire one (1) year period immediately following the Participant's death (but in no event later than the expiration date of the Award).

ARTICLE IX

CHANGE OF CONTROL

Unless and to the extent the terms and conditions of a Change of Control agreement between the Company and a Participant provide otherwise, in the event of a Change of Control of the Company, (i) all Stock Options then outstanding will become fully exercisable as of the date of the Change of Control, and (ii) all restrictions and conditions applicable to Restricted Stock and other Stock Awards will be deemed to have been satisfied as of the date of the Change of Control. Any such determination by the Board of Directors that is made after the occurrence of a Change of Control will not be effective unless a majority of the Directors then in office were in office at the beginning of a period of twenty-four (24) consecutive months and the determination is approved by a majority of such Directors.

ARTICLE X

AMENDMENT OF PLAN OR AWARDS

Section 10.01. Amendment, Suspension or Termination of Plan. The Board of Directors may, from time to time, amend, suspend or terminate this Plan at any time, and, in accordance with such amendments, may thereupon change terms and conditions of any Awards not theretofore issued. Shareholder approval for any such amendment will be required only to the extent necessary to satisfy the rules of NASDAQ or any national exchange on which the Common Shares are listed, or to satisfy any applicable federal or state law or regulation.

Section 10.02. Amendment of Outstanding Awards. The Committee may, in its discretion, amend the terms of any Award (other than a Director Option), prospectively or retroactively, but no such amendment may impair the rights of any Participant without his or her consent. Shareholder approval for any such amendment will be required only to the extent necessary to satisfy the rules of NASDAQ or any national exchange on which the Common Shares are listed, or to satisfy any applicable federal or state law or regulation. The Committee may, in whole or in part, waive any restrictions or conditions applicable to, or accelerate the vesting of, any Award (other than a Director Option).

ARTICLE XI

MISCELLANEOUS

Section 11.01. Governing Law. The interpretation, validity and enforcement of this Plan will, to the extent not otherwise governed by the Code or the securities laws of the United States, be governed by the laws of the State of Indiana.

Section 11.02. Rights of Employees. Nothing in this Plan will confer upon any Participant the right to continued employment by the Company or limit in any way the Company's right to terminate any Participant's employment at will.

ARTICLE XII

DEFINITIONS

Section 12.01. Definitions. When capitalized in this Plan, unless the context otherwise requires:

(a) "Advisory Director" means an advisory director of the Company or any of its Subsidiaries, who is not an Employee or Director of the Company or any of its Subsidiaries.

(b) "Award" means a grant made to a Participant pursuant to Article V of this Plan.

(c) "Award Agreement" means a written instrument between the Company and a Participant evidencing an Award and prescribing the terms, conditions, and restrictions applicable to the Award.

(d) "Board of Directors" means the Board of Directors of the Company, as constituted at any time.

(e) "Change of Control" means the first to occur of the following events:

(i) any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") other than the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company or First Merchants Bank, National Association (the "Bank") representing twenty-five percent (25%) or more of the combined voting power of the Company's or Bank's then outstanding securities;

(ii) persons constituting a majority of the Board of Directors of the Company or the Bank were not directors of the Company or the Bank for at least the twenty-four (24) months preceding months;

(iii) the shareholders of the Company or the Bank approve a merger or consolidation of the Company or the Bank with any other company, other than (1) a merger or consolidation which would result in the voting securities of the Company or the Bank outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or the Bank or such surviving entity outstanding immediately after such merger or consolidation or (2) a merger or consolidation effected to implement a recapitalization of the Company or the Bank (or similar transaction) in which no person acquires fifty percent (50%) or more of the combined voting power of the Company's or the Bank's then outstanding securities; or

(iv) the shareholders of the Company approve a plan of complete liquidation of the Company or the Bank or an agreement for the sale or disposition by the Company or the Bank of all or substantially all of the Company's assets.

(f) "Code" means the Internal Revenue Code of 1986, as amended.

(g) "Committee" means the Compensation and Human Resources Committee of the Board of Directors, consisting of two or more Non-Employee Directors who are "non-employee directors" as defined in paragraph (b)(3) of Rule 16b-3.

(h) "Common Share" means a share of common stock of First Merchants Corporation.

(i) "Common Shares Outstanding" means the total number of Common Shares outstanding as reflected in the Company's financial statements as of the most recent fiscal year-end.

(j) "Company" means First Merchants Corporation.

(k) "Director" means a director of the Company.

(l) "Director Option" means a right to purchase Common Shares granted to a Non-Employee Director pursuant to Article VI.

(m) "Disabled" or "Disability" means a permanent disability as defined in the applicable long-term disability plan of the Company; except that "Disabled" or "Disability" with respect to Director Options or Awards made to Subsidiary Directors or Advisory Directors shall mean total and permanent disability as defined in Section 22(e)(3) of the Code.

(n) "Employee" means any individual employed by the Company or any of its Subsidiaries, including officers and Employees who are members of the Board of Directors of the Company or any of its Subsidiaries.

(o) "Fair Market Value" of a Common Share means the value of the share on a particular date, determined as follows:

(i) if the stock is not listed on such date on any national securities exchange, the average between the highest "bid" and lowest "offered" quotations of a share on such date (or, if none, on the most recent date on which there were bid and offered quotations of a share), as reported by NASDAQ, or other similar service selected by the Committee;

(ii) if the stock is listed on such date on one (1) or more national securities exchanges, the last reported sale price of a share on such date as recorded on the composite tape system, or, if such system does not cover the stock, the last reported sale price of a share on such date on the principal national securities exchange on which the stock is listed, or, if no sale of the stock took place on such date, the last reported sale price of a share on the most recent day on which a sale of a share took place as recorded by such system or on such exchange, as the case may be; or

(iii) if the stock is neither listed on such date on a national securities exchange nor traded in the over-the-counter market, the fair market value of a share on such date as determined in good faith by the Committee, on a basis consistent with regulations under the Code.

(p) "Incentive Stock Options" means stock options issued to Employees which qualify under and meet the requirements of Section 422 of the Code.

(q) "Non-Employee Director" means any Director of the Company who is not an Employee of the Company or any of its Subsidiaries.

(r) "Non-Qualified Stock Options" means stock options which do not qualify under or meet the requirements of Section 422 of the Code.

(s) "Participant" means any person to whom an Award has been granted under this Plan.

(t) "Plan" means this First Merchants Corporation 1999 Long-Term Equity Incentive Plan authorized by the Board of Directors at its meeting held on February 9, 1999, as such Plan from time to time may be amended as herein provided.

(u) "Restricted Stock" means an Award of Common Shares that are nontransferable and are subject to a substantial risk of forfeiture.

(v) "Retirement", in the case of an Employee, means the termination of all employment with the Company and its Subsidiaries for any reason other than death or Disability after the day on which the Employee has attained age 55.

(w) "Rule 16b-3" means Rule 16b-3 of the Securities and Exchange Commission, under the Securities Exchange Age of 1934, as amended.

(x) "Stock Options" means the Incentive Stock Options and the Non-Qualified Stock Options issued pursuant to the Plan.

(y) "Subsidiary" means a corporation or other form of business association of which shares (or other ownership interests) having fifty percent (50%) or more of the voting power are, or in the future become, owned or controlled, directly or indirectly, by the Company.

(z) "Subsidiary Director" means a director of a Subsidiary of the Company, who is not a Director of the Company or an Employee of the Company or any of its Subsidiaries.

EXHIBIT-13
2002 ANNUAL REPORT TO STOCKHOLDERS-FINANCIAL REVIEW

EXHIBIT 13--2002 ANNUAL REPORT TO STOCKHOLDERS - FINANCIAL REVIEW

Financial Review

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(in thousands, except share data)	2002	2001	2000	1999	1998
Operations (4)					
Net Interest Income					
Fully Taxable Equivalent (FTE) Basis	$ 96,599	$ 66,806	$ 58,619	$ 56,513	$ 52,463
Less Tax Equivalent Adjustment	3,676	2,445	2,637	2,948	2,767
Net Interest Income	92,923	64,361	55,982	53,565	49,696
Provision for Loan Losses	7,174	3,576	2,625	2,241	2,372
Net Interest Income					
After Provision for Loan Losses	85,749	60,785	53,357	51,324	47,324
Total Other Income	27,077	18,543	16,634	14,573	12,880
Total Other Expenses	71,009	45,195	40,083	36,710	32,741
Income Before Income Tax Expense	41,817	34,133	29,908	29,187	27,463
Income Tax Expense	13,981	11,924	9,968	10,099	9,556
Net Income	$ 27,836	$ 22,209	$ 19,940	$ 19,088	$ 17,907
Per share data (1)(4)					
Basic Net Income	$ 1.79	$ 1.71	$ 1.59	$ 1.44	$ 1.36
Diluted Net Income	1.77	1.69	1.58	1.43	1.34
Cash Dividends Paid (2)	.90	.88	.82	.76	.70
December 31 Book Value	16.00	13.46	12.19	10.48	11.66
December 31 Market Value (Bid Price)	22.75	22.87	20.52	23.18	23.58
Average balances (4)					
Total Assets	$2,406,251	$1,689,694	$1,532,691	$1,397,230	$1,254,223
Total Loans	1,842,429	1,270,555	1,104,013	935,716	870,317
Total Deposits	1,857,053	1,331,631	1,209,015	1,073,074	1,016,629
Securities Sold Under Repurchase Agreements					
(long-term portion)	66,535	44,394	53,309	56,181	34,900
Total Federal Home Loan Bank Advances	155,387	103,941	80,008	57,062	30,742
Total Trust Preferred Securities	37,379				
Total Stockholders' Equity	237,575	166,232	141,446	149,727	148,052
Year-end balances (4)					
Total Assets	$2,678,687	$1,787,035	$1,621,063	$1,474,048	$1,362,527
Total Loans	2,025,922	1,359,893	1,175,586	998,956	891,132
Total Deposits	2,036,688	1,421,251	1,288,299	1,147,203	1,085,952
Securities Sold Under Repurchase Agreements					
(long-term portion)	23,632	32,500	32,500	35,000	28,000
Total Federal Home Loan Bank Advances	184,677	103,499	93,182	73,514	47,068
Total Trust Preferred Securities	53,188				
Total Stockholders' Equity	261,129	179,128	156,063	126,296	153,891
Financial ratios (4)					
Return on Average Assets	1.16%	1.31%	1.30%	1.37%	1.43%
Return on Average Stockholders' Equity	11.72	13.36	14.10	12.75	12.09
Average Earning Assets to Total Assets	91.38	93.29	94.85	94.77	94.80
Allowance for Loan Losses as % of Total Loans	1.11	1.11	1.06	1.01	1.03
Dividend Payout Ratio	50.85	52.07	51.90	53.15	52.24
Average Stockholders' Equity to Average Assets	9.87	9.84	9.23	10.72	11.80
Tax Equivalent Yield on Earning Assets (3)	6.83	7.80	8.19	7.81	8.15
Cost of Supporting Liabilities	2.44	3.56	4.16	3.54	3.74
Net Interest Margin on Earning Assets	4.39	4.24	4.03	4.27	4.41

(1) Restated for all stock dividends and stock splits.

(2) Dividends per share is for First Merchants Corporation only, not restated for pooling transactions.

(3) 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.

(4) Business combinations that affect the comparability of this information are discussed in Note 2 to the consolidated financial statements.

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MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

FORWARD-LOOKING STATEMENTS

The Corporation from time to time includes forward-looking statements in its oral and written communication. The Corporation may include forward-looking statements in filings with the Securities and Exchange Commission, such as Form 10-K and Form 10-Q, in other written materials and in oral statements made by senior management to analysts, investors, representatives of the media and others. The Corporation intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and the Corporation is including this statement for purposes of these safe harbor provisions. Forward-looking statements can often be identified by the use of words like "estimate," "project," "intend," "anticipate," "expect" and similar expressions. These forward-looking statements include:

* statements of the Corporation's goals, intentions and expectations;

* statements regarding the Corporation's business plan and growth strategies;

* statements regarding the asset quality of the Corporation's loan and investment portfolios; and

* estimates of the Corporation's risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors which could affect the actual outcome of future events:

* fluctuations in market rates of interest and loan and deposit pricing, which could negatively affect the Corporation's net interest margin, asset valuations and expense expectations;

* adverse changes in the Indiana economy, which might affect the Corporation's business prospects and could cause credit-related losses and expenses;

* adverse developments in the Corporation's loan and investment portfolios;

* competitive factors in the banking industry, such as the trend towards consolidation in the Corporation's market; and

* changes in the banking legislation or the regulatory requirements of federal and state agencies applicable to bank holding companies and banks like the Corporation's affiliate banks.

Because of these and other uncertainties, the Corporation's actual future results may be materially different from the results indicated by these forward-looking statements. In addition, the Corporation's past results of operations do not necessarily indicate its future results.

CRITICAL ACCOUNTING POLICIES

Certain policies are important to the portrayal of the Corporation's financial condition, since they require management to make difficult, complex or subjective judgements, some of which relate to matters that are inherently uncertain. Management believes that its critical accounting policies are those that involve the determination of the allowance for loan losses ("ALL").

The ALL is a significant estimate that can and does change based on management's assumptions about specific borrowers and applicable economic and environmental conditions, among other factors. The ALL is maintained to absorb losses inherent in the loan portfolio and is based on ongoing, quarterly assessments of the probable losses inherent in the loan portfolio. The ALL is increased by the provision for loan losses, which is charged against current operating results. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Corporation's methodology for assessing the appropriateness of the ALL consists of three key elements - the determination of the appropriate reserves for specifically identified loans, historical losses, and environmental or qualitative factors.

Specific allowances are established in those instances where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss may be incurred. The loans that are reviewed for specific allowances are generally those internally classified as substandard, doubtful or loss, including nonaccrual loans, loans in the process of foreclosure and certain loans past due 90 days or more and still accruing interest. Additionally, management also specifically reviews any other loan with a significant loss exposure.

The Corporation's five-year average historical loss experience is used to estimate an appropriate allowance for those loans not individually reviewed. The historical loss experience is determined for each type of loan in the portfolio.

There are certain inherent risks in the Corporation's loan portfolio; accordingly, the Corporation includes certain environmental or qualitative factors in its determination of the adequacy of the allowance for loan losses. These factors include national and local economic conditions that could have an impact of the credit quality of the loan portfolio, lending policies and procedures, portfolio size and composition, delinquency and non-performing loan trends, lending management and staff, loan review systems and procedures, concentration of credit, among other factors. The evaluation of the inherent loss with respect to these factors is subject to a higher degree of uncertainty because they are not identified with specific credits.

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MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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RESULTS OF OPERATIONS

Net income for the year 2002 reached $27,836,000, up from $22,209,000 in 2001. The $5,627,000 increase is attributable to several factors, including the April 1, 2002 acquisition of Lafayette Bank and Trust Company ("Lafayette"), improved net interest margin and the elimination of goodwill amortization. However, these factors were mitigated by increased provision for loan losses and increased other expenses. These factors and others are discussed within the respective sections of Management's Discussion & Analysis of Financial Condition and Results of Operations. Diluted earnings per share totaled $1.77, a 4.7% increase over $1.69 reported for 2001. In 2002, First Merchants Corporation ("Corporation") recorded the twenty-seventh consecutive year of improvement in net income on both an aggregate and per share basis.

Net income for the year 2001 reached $22,209,000 up from $19,940,000 in 2000. The $2,269,000 increase is attributable to several factors, including the July 1, 2001 acquisition of Frances Slocum Bank and Trust Company and improved net interest margin; however, these factors were mitigated by increased other expenses. These factors and others are discussed within the respective sections of Management's Discussion & Analysis of Financial Condition and Results of Operations. Diluted earnings per share totaled $1.69, a 7.0% increase over $1.58 reported for 2000.

Return on equity was 11.72 percent in 2002, as compared to the 2001 and 2000 figures of 13.36 percent and 14.10 percent.

Return on assets was 1.16 percent in 2002, 1.31 percent in 2001 and 1.30 percent in 2000.

The declines in return on equity and return on assets during 2002 are primarily due to increased provision for loan losses, which is discussed in the Asset Quality/Provision for Loan Losses section of Management's Discussion & Analysis of Financial Condition and Results of Operations.

CAPITAL

The Corporation's capital strength continues to exceed regulatory minimums and management believes that its capital levels continue to be a distinct advantage in the competitive environment in which the Corporation operates.

Tier I capital consists primarily of common stockholders' equity and trust preferred securities, less nonqualifying intangible assets and unrealized net securities gains. The Corporation's Tier I capital to average assets ratio was 7.92 percent and 8.7 percent at December 31, 2002 and 2001, respectively. In addition, at December 31, 2002, the Corporation had a Tier I risk-based capital ratio of 10.06 percent and total risk-based capital ratio of 11.17 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.

CAPITAL continued

The Corporation has an employee stock purchase plan and an employee stock option plan. Activity under these plans is described in Note 16 to the Consolidated Financial Statements. The transactions under these plans have not had a material effect on the Corporation's capital position.

ASSET QUALITY/PROVISION FOR LOAN LOSSES

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 are not specifically identified. (See Critical Accounting Policies)

At December 31, 2002, non-performing loans totaled $23,318,000, an increase of $8,652,000, as noted in the table on the following page. This increase was primarily due to the addition of $8,122,000 in non-accrual loans and past due 90 days or more other than non-accruing loans related to the acquisition of Lafayette and the general downturn in the economy.

At December 31, 2002, impaired loans totaled $44,351,000, an increase of $23,190,000 from year end 2001. The increase was attributable to the addition of impaired loans totaling $14,677,000, related to the acquisition of Lafayette and several borrowers whose loans are considered impaired at December 31, 2002, but were not impaired at December 31, 2001. At December 31, 2002, an allowance for losses was not deemed necessary for impaired loans totaling $27,450,000, but an allowance of $7,299,000 was recorded for the remaining balance of impaired loans of $16,901,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for 2002 was $49,663,000.

At December 31, 2002, the allowance for loan losses was $22,417,000, an increase of $7,276,000 from year end 2001. As a percent of loans, the allowance was 1.11 percent at both December 31, 2002 and 2001.

The provision for loan losses in 2002 was $7,174,000, an increase of $3,598,000 from $3,576,000 in 2001. The Corporation's adequacy of the allowance for loan losses reflects increased non-performing loans, increased specific reserves and increased impaired loans, resulting in increased provision expense. Of the $3.6 million increase, approximately $900,000 is attributable to the provision for loan losses for Lafayette subsequent to its acquisition, with the remaining based on the regular ongoing evaluation of the loan portfolios of the Corporation's bank subsidiaries. Current non-performing and impaired loan balances indicate that some decline in loan asset quality has occurred, which management believes is a result of current economic conditions.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table summarizes the non-accrual, contractually past due 90 days or more other than non-accruing and restructured loans for the Corporation.

(dollars in thousands)	December 31, 2002	2001
Non-accrual loans	$14,134	$ 6,327
Loans contractually past due 90 days or more other than non-accruing	6,676	4,828
Restructured loans	2,508	3,511
Total	$23,318	$14,666

The table below presents loan loss experience for the years indicated.

(Dollars in Thousands)	2002	2001	2000
Allowance for loan losses:			
Balance at January 1	$15,141	$12,454	$10,128
Chargeoffs	8,113	3,547	2,291
Recoveries	1,313	573	579
Net chargeoffs	6,800	2,974	1,712
Provision for loan losses	7,174	3,576	2,625
Allowance acquired in acquisitions	6,902	2,085	1,413
Balance at December 31	$22,417	$15,141	$12,454
Ratio of net chargeoffs during the period to average loans outstanding during the period	.37%	.23%	.16%

LIQUIDITY

Liquidity management is the process by which the Corporation ensures that adequate liquid funds are available for the Corporation and its subsidiaries. These funds are necessary in order for the Corporation and its subsidiaries to meet financial commitments on a timely basis. These commitments include withdrawals by depositors, funding credit obligations to borrowers, paying dividends to shareholders, paying operating expenses, funding capital expenditures, and maintaining deposit reserve requirements. Liquidity is monitored and closely managed by the asset/liability committees at each subsidiary and by the Corporation's asset/liability committee.

The liquidity of the Corporation is dependent upon the receipt of dividends from its bank subsidiaries, which are subject to certain regulatory limitations as explained in Note 14 to the consolidated financial statements, and access to other funding sources. Liquidity of the Corporation's bank subsidiaries is derived primarily from core deposit growth, principal payments received on loans, the sale and maturity of investment securities, net cash provided by operating activities, and access to other funding sources. The most stable source of liability-funded liquidity for both the long-term and short-term is deposit growth and retention in the core deposit base. In addition, the Corporation utilizes advances from the Federal Home Loan Bank ("FHLB") as a funding source. At December 31, 2002, total borrowings from the FHLB were $184,677,000. The Corporation's bank subsidiaries have pledged certain mortgage loans and certain investments to the FHLB. The total available remaining borrowing capacity from the FHLB at December 31, 2002, was $221,204,000. The principal source of asset-funded liquidity is investment securities classified as available-for-sale, the market values of which totaled

LIQUIDITY continued

$332,925,000 at December 31, 2002, an increase of $101,257,000 or 43.7% over 2001. Securities classified as held-to-maturity that are maturing within a short period of time can also be a source of liquidity. Securities classified as held-to-maturity and that are maturing in one year or less totaled $1,286,000 at December 31, 2002. In addition, other types of assets-such as cash and due from banks, federal funds sold and securities purchased under agreements to resell, and loans and interest-bearing deposits with other banks maturing within one year-are sources of liquidity.

In the normal course of business, the Corporation is a party to a number of other off-balance sheet activities that contain credit, market and operational risk that are not reflected in whole or in part in the Corporation's consolidated financial statements. Such activities include: traditional off-balance sheet credit-related financial instruments, commitments under operating leases and long-term debt.

The Corporation provides customers with off-balance sheet credit support through loan commitments and standby letters of credit. Summarized credit-related financial instruments at December 31, 2002 are as follows:

(Dollars in thousands)	At December 31, 2002
Amounts of commitments:	
Loan commitments to extend credit	$ 312,146
Standby letters of credit	18,124
	$ 330,270

Since many of the commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

In addition to owned banking facilities, the Corporation has entered into a number of long-term leasing arrangements to support the ongoing activities of the Corporation. The required payments under such commitments and long-term debt at December 31, 2002 are as follows:

(Dollars in thousands)	2002	2003	2004	2005	2006	2007 and after	Total
Operating leases	$ 967	$ 795	$ 533	$ 567	$ 345	$ 323	$ 3,530
Trust preferred securities	53,188	53,188					
Long-term debt	81,588	32,382	27,750	20,403	10,495	101,653	274,271
Total	$ 82,555	$ 33,177	$ 28,283	$ 20,970	$ 10,840	$155,164	$330,989

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 review how changes in interest rates may affect earnings. Decisions regarding investment and the pricing of loan

INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK continued

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.

Management believes that the Corporation's liquidity and interest sensitivity position at December 31, 2002, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk. The following table presents the Corporation's interest rate sensitivity analysis as of December 31, 2002.

INTEREST RATE SENSITIVITY ANALYSIS

(dollars in thousands)	At December 31, 2002				
	1-180 DAYS	181-365 DAYS	1-5 YEARS	BEYOND 5 YEARS	TOTAL
Rate-Sensitive Assets:					
Federal funds sold and interest-bearing deposits	$ 34,968				$ 34,968
Investment securities	27,765	$ 12,136	$ 85,429	$ 216,732	342,062
Loans	850,254	195,160	661,945	318,563	2,025,922
Federal Reserve and Federal Home Loan Bank stock	11,409				11,409
Total rate-sensitive assets	924,396	207,296	747,374	535,295	2,414,361
Rate-Sensitive Liabilities:					
Interest-bearing deposits	723,470	494,076	494,077	52,937	1,764,560
Securities sold under repurchase agreements	65,962		23,632		89,594
Other short-term borrowings	10,168				10,168
Federal Home Loan Bank advances	7,807	7,819	67,398	101,653	184,677
Trust preferred securities				53,188	53,188
Other borrowed funds	19,300				19,300
Total rate-sensitive liabilities	826,707	501,895	585,107	207,778	2,121,487
Interest rate sensitivity gap by period	$ 97,689	$ (294,599)	$ 162,267	$ 327,517	
Cumulative rate sensitivity gap	97,689	(196,910)	(34,643)	292,874	
Cumulative rate sensitivity gap ratio					
at December 31, 2002	111.8%	85.2%	98.2%	113.8%	
at December 31, 2001	135.4%	97.6%	109.7%	116.9%	

The Corporation had a cumulative negative gap of $196,910,000 in the one-year horizon at December 31, 2002, just over 7.4 percent of total assets. Net interest income at financial institutions with negative gaps tends to increase when rates decrease and decrease as interest rates increase.

The Corporation places its greatest credence in net interest income simulation modeling. The GAP/Interest Rate Sensitivity Report is believed by the Corporation's management 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.

INTEREST RATE SENSITIVITY ANALYSIS continued

Net interest income simulation modeling, or earnings-at-risk, measures the sensitivity of net interest income to various interest rate movements. The Corporation's asset liability process monitors simulated net interest income under three separate interest rate scenarios; base, rising and falling. Estimated net interest income for each scenario is calculated over a 12-month horizon. The immediate and parallel changes to the base case scenario used in the model are presented below. The interest rate scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings of the Corporation.

The base scenario is highly dependent on numerous assumptions embedded in the model, including assumptions related to future interest rates. While the base sensitivity analysis incorporates management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. For mortgage-related assets, the base simulation model captures the expected prepayment behavior under changing interest rate environments. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity products, e.g., savings, money market, NOW and demand deposits reflect management's best estimate of expected future behavior.

The comparative rising and falling scenarios for the period ended December 31, 2003 assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by management in the base simulation for the period ended December 31, 2003 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(50) Basis Points
Federal Funds	200	(50)
One-Year T-Bill	200	(20)
Two-Year T-Bill	200	(59)
Interest Checking	100	--
MMIA Savings	100	--
First Flex	100	(25)
CD's	200	(53)
FHLB Advances	200	(66)

Results for the base, rising and falling interest rate scenarios are listed below, based upon the Corporation's rate sensitive assets at December 31, 2002. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	BASE	RISING	FALLING
Net Interest Income (dollars in thousands)	$105,138	$113,855	$ 98,793
Variance from base		$ 8,717	$ (6,345)
Percent of change from base		8.29%	(6.03)%

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EARNING ASSETS

Earning assets increased $767.4 million during 2002. The table below reflects the earning asset mix for the years 2002 and 2001 (at December 31).

Loans grew by $666.0 million while investment securities increased by $101.7 million. The acquisition of Lafayette combined with increased loan demand resulted in a 49.0% increase in the Corporation's loan portfolio. In addition, the increase in investment securities was primarily a result of the acquisition of Lafayette.

EARNING ASSETS
(dollars in millions)

	December 31, 2002	December 31, 2001
Federal funds sold and interest-bearing time deposits	$ 35.0	$ 38.2
Securities available for sale	332.9	231.7
Securities held to maturity	9.1	8.7
Loans	2,025.9	1,359.9
Federal Reserve and Federal Home Loan Bank stock	11.4	8.4
Total	$2,414.3	$1,646.9

DEPOSITS AND BORROWINGS

The table below reflects the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements, U.S. Treasury demand notes, Federal Home Loan Bank advances, trust preferred securities and other borrowed funds) based on year-end levels at December 31, 2002 and 2001.

As of December 31
(dollars in millions)

	DEPOSITS	SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	OTHER SHORT-TERM BORROWINGS	FEDERAL HOME LOAN BANK ADVANCES	TRUST PREFERRED SECURITIES	OTHER BORROWED FUNDS
2002	$2,036.7	$89.6	$10.2	$184.7	$53.2	$19.3
2001	1,421.3	45.6	16.8	103.5		8.5

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 reflects the Corporation's asset yields, interest expense, and net interest income as a percent of average earning assets for the three-year period ending in 2002.

In 2002, asset yields decreased 97 basis points (FTE) and interest cost decreased 112 basis points, resulting in a 15 basis point (FTE) increase in net interest income. The Corporation aggressively repriced deposits downward in relation to market interest rates in an effort to mitigate declining asset yields resulting from a 4.5% decrease in the prime rate in 2001 and an additional 75 basis point decline in 2002.

(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
2002	6.83%	2.44%	4.39%	$2,198,943	$96,599
2001	7.80	3.56	4.24	1,576,334	66,806
2000	8.19	4.16	4.03	1,453,795	58,619

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

OTHER INCOME

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

Other income in 2002 amounted to $27,077,000 or 46.0 percent higher than in 2001. The increase of $8,534,000 is primarily attributable to the following factors:

1. Service charges on deposit accounts increased $3,601,000 or 62.9 percent due to increased number of accounts, price adjustments and approximately $3,105,000 of additional service charge income related to the April 1, 2002 acquisition of Lafayette.

2. Net realized gains on sales of available-for-sale securities totaled $739,000 in 2002, while net realized losses on sales of available-for-sale securities totaled $(200,000) during 2001.

3. Revenues from fiduciary activities increased $829,000 or 15.3 percent due primarily to additional fees received related to the acquisition of Lafayette.

4. The Corporation sold its purchase money order business in September of 2002, resulting in a net gain on sale of $514,000.

5. Abstract, title insurance and other related income increased $910,000 in 2002, related to the January 1, 2002 acquisition of Delaware County Abstract Company, Inc. and Beebe & Smith Title Insurance Company, Inc.

6. Gains on sale of mortgage loans included in other income increase by $481,000, or 39.1 percent, due to increased mortgage volume. In addition, decreasing mortgage loan rates caused an increase in refinancing volume, which facilitated an increase in loan sales activity.

Other income in 2001 amounted to $18,543,000 or 11.5 percent higher than in 2000. The increase of $1,909,000 is primarily attributable to the following factors:

1. Service charges on deposit accounts increased $953,000, or 20.0 percent due to increased number of accounts and price adjustments.

2. Gains on sale of mortgage loans included in other income increased by $611,000, or 97.9 percent, due to increased mortgage volume. In addition, decreasing mortgage loan interest rates caused an increase in refinancing volume, which facilitated an increase in loan sales activity.

OTHER EXPENSES

Other expenses represent non-interest operating expenses of the Corporation. Other expenses in 2002 amounted to $71,009,000, an increase of 57.1 percent from the prior year, or $25,814,000.

The following factors account for most of the increase:

1. Salaries and benefit expense grew $14,439,000, or 58.4 percent, due to normal salary increases, staff additions and additional salary and benefit cost of $9,785,000 related to the April 1, 2002 acquisition of Lafayette.

2. Telephone expenses increased by $1,497,000 or 140.9%, due to additional telephone costs related to the acquisition of Lafayette. In addition, increased service contract charges related to greater usage of telephone lines, contributed to this increase.

3. Equipment expenses increased by $2,188,000 or 48.4%, primarily related to the April 1, 2002 acquisition of Lafayette.

4. Core deposit intangible amortization increased by $907,000, due to utilization of the purchase method of accounting for the Corporation related to the April 1, 2002 acquisition of Lafayette.

5. Data processing fees increased by $1,421,000, or 63.4 percent, primarily due to increases in processing expenses related to greater usage of debit/ATM cards by customers and increases in loans originated and processed during 2002.

6. Net occupancy expenses increased by $903,000 or 33.1%, primarily related to the April 1, 2002 acquisition of Lafayette.

Other expenses amounted to $45,195,000 in 2001, an increase of 12.8 percent from the prior year, or $5,112,000.

Three major areas account for most of the increase:

1. Salary and benefit expenses grew by $3,293,000, or 15.4 percent, due to normal salary increases, staff additions and additional salary cost related to the acquisition of Frances Slocum Bank and Trust Company.

2. Data processing fees increased by $507,000, or 29.2 percent, primarily due to increases in processing expenses related to greater usage of debit/ATM cards by customers and increases in loans originated and processed during the year.

3. Goodwill and core deposit amortization increased by $786,000, or 87.7 percent, due to utilization of the purchase method of accounting for the Corporation's June 1, 2000 acquisition of Decatur Bank and Trust Company and July 1, 2001 acquisition of Frances Slocum Bank and Trust Company.

INCOME TAXES

The increase in 2002 tax expense of $2,057,000 is attributable primarily to the acquisition of Lafayette and an increase in pre-tax income of $5,627,000. The increase in 2001 tax expenses of $1,956,000 is attributable primarily to a $4,225,000 increase in net pre-tax income. In addition, the effective tax rates for the periods ending December 31, 2002, 2001 and 2000 were 33.4%, 34.9% and 33.3%, respectively. The 150 basis point decrease is primarily a result of increases in tax exempt interest income and reduced state taxes, resulting from the effect of state income apportionment.

ACCOUNTING MATTERS

ACCOUNTING FOR A BUSINESS COMBINATION

Statement of Financial Accounting Standards ("SFAS") No. 141 requires that most all business combinations should be accounted for using the purchase method of accounting; use of the pooling method is prohibited.

This Statement requires that goodwill be initially recognized as an asset in the financial statement and measured as the excess of the cost of an acquired entity over the net of the amounts assigned to identifiable assets acquired and liabilities assumed. In addition, SFAS No. 141 requires all other intangibles, such as core deposit intangibles for a financial institution, to be identified.

The provisions of Statement No. 141 were effective for any business combination that was initiated after June 30, 2001.

ACCOUNTING FOR GOODWILL

Under the provisions of SFAS No. 142, goodwill should not be amortized but should be tested for impairment at the reporting unit level. Impairment test of goodwill should be done on an annual basis unless events or circumstances indicate impairment has occurred in the interim period. The annual impairment test can be performed at any time during the year as long as the measurement date is used consistently from year to year.

Impairment testing is a two step process, as outlined within the statement. If the fair value of goodwill is less than its carrying value, then the goodwill is deemed impaired and a loss recognized.

The Corporation adopted these new accounting rules on January 1, 2002. As a result, the Corporation will not amortize the goodwill it has recorded prior to June 30, 2001, but will make an annual assessment of any impairment in goodwill and, if necessary, recognize an impairment loss at that time. The Corporation had goodwill of $87,640,000 and $26,081,000 at December 31, 2002 and 2001, respectively. Had Statement No. 142 been applied retroactively, the reported 2001 and 2000 net income would have increased by $1,070,000 and $724,000, respectively. At December 31, 2002, no impairment loss was identified.

ACQUISITIONS OF CERTAIN FINANCIAL INSTITUTIONS

SFAS No. 147 became effective October 1, 2002. This standard requires any intangible assets previously recorded under SFAS No. 72 to be included in the scope of SFAS No.s 141 and 142. This standard has no immediate impact on the financial position and results of operations of the Corporation, as the Corporation did not have any recorded unidentified intangible assets or goodwill that had continued to be amortized.

ACCOUNTING FOR STOCK-BASED COMPENSATION-TRANSITION AND DISCLOSURE-AN AMENDMENT OF FASB STATEMENT NO. 123

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148. SFAS No. 148 amends FASB Statement No. 123, "Accounting for Stock Based Compensation" ("SFAS 123") and provides alternative methods for accounting for a change by registrants to the fair value method of accounting for stock-based compensation. Additionally, SFAS No. 148 amends the disclosure requirements of SFAS 123 to require disclosure in the significant accounting policy footnote of both annual and interim financial statements of the method of accounting for stock-based compensation and the related pro-forma disclosures when the intrinsic value method continues to be used. The statement is effective for fiscal years ending after December 15, 2002. Adoption of this statement did not have a material effect on the Corporation's financial position or results of operations.

INFLATION

Changing prices of goods, services and capital affect the financial position of every business enterprise. The level of market interest rates and the price of funds loaned or borrowed fluctuate due to changes in the rate of inflation and various other factors, including government monetary policy.

Fluctuating interest rates affect the Corporation's net interest income, loan volume and other operating expenses, such as employee salaries and benefits, reflecting the effects of escalating prices, as well as increased levels of operations and other factors. As the inflation rate increases, the purchasing power of the dollar decreases. Those holding fixed-rate monetary assets incur a loss, while those holding fixed-rate monetary liabilities enjoy a gain. The nature of a financial holding company's operations is such that there will generally be an excess of monetary assets over monetary liabilities, and, thus, a financial holding company will tend to suffer from an increase in the rate of inflation and benefit from a decrease.

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INDEPENDENT ACCOUNTANTS' REPORT

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To the Stockholders and Board of Directors
First Merchants Corporation
Muncie, Indiana

We have audited the accompanying consolidated balance sheets of First Merchants Corporation as of December 31, 2002 and 2001, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Merchants Corporation as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 7, the Corporation changed its method of accounting for goodwill in 2002.

BKD, LLP

Indianapolis, Indiana
January 17, 2003

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31, 2002	December 31, 2001
Assets		
Cash and due from banks	$ 87,638	$ 68,743
Federal funds sold	31,400	34,285
Cash and cash equivalents	119,038	103,028
Interest-bearing time deposits	3,568	3,871
Investment securities		
Available for sale	332,925	231,668
Held to maturity (fair value of $9,585 and $8,762)	9,137	8,654
Total investment securities	342,062	240,322
Mortgage loans held for sale	21,545	307
Loans, net of allowance for loan losses of $22,417 and $15,141	1,981,960	1,344,445
Premises and equipment	38,645	27,684
Federal Reserve and Federal Home Loan Bank stock	11,409	8,350
Interest receivable	17,346	12,024
Core deposit intangibles	19,577	6,096
Goodwill	87,640	26,081
Cash surrender value of life insurance	14,309	6,470
Other assets	21,588	8,357
Total assets	$ 2,678,687	$ 1,787,035
Liabilities		
Deposits		
Noninterest-bearing	$ 272,128	$ 186,987
Interest-bearing	1,764,560	1,234,264
Total deposits	2,036,688	1,421,251
Borrowings	356,927	174,404
Interest payable	6,019	5,488
Other liabilities	17,924	6,764
Total liabilities	2,417,558	1,607,907
COMMITMENTS AND CONTINGENT LIABILITIES		
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 -- 16,322,748 and 13,303,822 shares	2,040	1,663
Additional paid-in capital	116,503	50,563
Retained earnings	138,110	124,304
Accumulated other comprehensive income	4,476	2,598
Total stockholders' equity	261,129	179,128
Total liabilities and stockholders' equity	$ 2,678,687	$ 1,787,035

See notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Year Ended December 31, 2002	2001	2000
Interest income			
Loans receivable			
Taxable	$129,279	$103,123	$ 95,798
Tax exempt	638	438	311
Investment securities			
Taxable	9,086	11,207	14,478
Tax exempt	6,190	4,103	4,587
Federal funds sold	557	899	666
Deposits with financial institutions	197	106	103
Federal Reserve and Federal Home Loan Bank stock	735	559	585
Total interest income	146,682	120,435	116,528
Interest expense			
Deposits	39,700	45,856	49,607
Securities sold under repurchase agreements	2,060	3,208	4,263
Federal Home Loan Bank advances	8,166	6,556	5,315
Trust preferred securities	3,324		
Other borrowings	509	454	1,361
Total interest expense	53,759	56,074	60,546
Net interest income	92,923	64,361	55,982
Provision for loan losses	7,174	3,576	2,625
Net interest income after provision for loan losses	85,749	60,785	53,357
Other income			
Fiduciary activities	6,258	5,429	4,972
Service charges on deposit accounts	9,330	5,729	4,776
Other customer fees	3,918	3,166	3,519
Net realized gains (losses) on sales of available-for-sale securities	739	(200)	(107)
Commission income	2,203	1,945	1,950
Other income	4,629	2,474	1,524
Total other income	27,077	18,543	16,634
Other expenses			
Salaries and employee benefits	39,150	24,711	21,418
Net occupancy expenses	3,632	2,729	2,471
Equipment expenses	6,709	4,521	4,299
Marketing expenses	1,495	1,072	1,010
Outside data processing fees	3,664	2,243	1,736
Printing and office supplies	1,597	1,143	1,144
Goodwill and core deposit amortization	2,589	1,682	896
Other expenses	12,173	7,094	7,109
Total other expenses	71,009	45,195	40,083
Income before income tax	41,817	34,133	29,908
Income tax expense	13,981	11,924	9,968
Net income	$ 27,836	$ 22,209	$ 19,940
Net income per share:			
Basic	$ 1.79	$ 1.71	$ 1.59
Diluted	1.77	1.69	1.58

See notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31, (in thousands)	2002	2001	2000
Net income	$ 27,836	$ 22,209	$ 19,940
Other comprehensive income, net of tax:			
Unrealized gains on securities available for sale:			
Unrealized holding gains arising during the period, net of income tax expense of $2,426, $1,848, $2,610	3,639	2,775	3,831
Less: Reclassification adjustment for gains (losses) included in net income, net of income tax (expense) benefit of $(296), $80, $43	443	(120)	(64)
Unrealized loss on pension minimum funding liability:			
Unrealized loss arising during the period, net of income tax benefit of $879	(1,318)		
	1,878	2,895	3,895
COMPREHENSIVE INCOME	$ 29,714	$ 25,104	$ 23,835

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	COMMON STOCK					
	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balances, January 1, 2000	10,936,617	$ 1,367	$ 25,481	$ 103,640	$ (4,192)	$ 126,296
Net income for 2000				19,940		19,940
Cash dividends ($ .82 per share)				(10,331)		(10,331)
Other comprehensive income, net of tax					3,895	3,895
Stock issued under employee benefit plans	26,778	3	478			481
Stock issued under dividend reinvestment and stock purchase plan	35,611	5	806			811
Stock options exercised	33,906	4	506			510
Stock redeemed	(292,000)	(37)	(6,670)	(5)		(6,712)
Issuance of stock related to acquisition	870,957	109	21,068			21,177
Cash paid in lieu of fractional shares	(137)		(4)			(4)
Balances, December 31, 2000	11,611,732	1,451	41,665	113,244	(297)	156,063
Net income for 2001				22,209		22,209
Cash dividends ($.88 per share)				(11,127)		(11,127)
Other comprehensive income, net of tax					2,895	2,895
Stock issued under employee benefit plans	28,466	4	500			504
Stock issued under dividend reinvestment and stock purchase plan	35,348	4	799			803
Stock options exercised	19,627	2	223			225
Stock redeemed	(306,966)	(38)	(6,985)			(7,023)
Issuance of stock related to acquisition	677,972	85	14,516			14,601
Five percent (5%) stock dividend	604,128	76	(76)			
Cash paid in lieu of fractional shares				(22)		(22)
Balances, December 31, 2001	12,670,307	1,584	50,642	124,304	2,598	179,128
Net income for 2002				27,836		27,836
Cash dividends ($.90 per share)				(13,995)		(13,995)
Other comprehensive income, net of tax					1,878	1,878
Stock issued under employee benefit plans	35,613	4	654			658
Stock issued under dividend reinvestment and stock purchase plan	28,487	5	946			951
Stock options exercised	49,689	6	488			494
Stock redeemed	(148,405)	(20)	(4,313)			(4,333)
Issuance of stock related to acquisitions	2,912,869	364	68,183			68,547
Five percent (5%) stock dividend	774,188	97	(97)			
Cash paid in lieu of fractional shares				(35)		(35)
Balances, December 31, 2002	16,322,748	$ 2,040	$116,503	$ 138,110	$ 4,476	$ 261,129

See notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, except share data)	Year Ended December 31, 2002	2001	2000
Operating activities:			
Net income	$ 27,836	$ 22,209	$ 19,940
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	7,174	3,576	2,625
Depreciation	4,273	2,984	3,198
Amortization of goodwill and intangibles	2,444	1,682	896
Deferred income tax	(503)	616	(767)
Securities amortization, net	573	8	72
Securities losses (gains), net	(739)	200	107
Loss (gain) on sale of premises and equipment	(7)	2	(105)
Mortgage loans originated for sale	(140,584)	(22,705)	(2,111)
Proceeds from sales of mortgage loans	126,905	22,398	2,172
Net change in			
Interest receivable	763	2,514	(825)
Interest payable	(1,318)	(1,727)	1,479
Other adjustments	(9,122)	(545)	3,104
Net cash provided by operating activities	17,695	31,212	29,785
Investing activities:			
Net change in interest-bearing deposits	10,729	(2,988)	1,330
Purchases of			
Securities available for sale	(182,511)	(34,500)	(11,437)
Securities held to maturity			
Proceeds from maturities of			
Securities available for sale	164,273	108,692	49,975
Securities held to maturity	4,307	3,612	5,617
Proceeds from sales of			
Securities available for sale	21,363	770	14,654
Net change in loans	(100,650)	(50,384)	(87,658)
Purchase of Federal Home Loan Bank stock	(715)	(592)	(712)
Purchases of premises and equipment	(4,854)	(2,438)	(4,409)
Proceeds from sale of fixed assets	75	37	449
Net cash received (paid) in acquisition	(12,532)	5,261	
Other investing activities			280
Net cash provided (used) by investing activities	(100,515)	27,470	(31,911)
Financing activities:			
Net change in			
Demand and savings deposits	34,818	55,640	772
Certificates of deposit and other time deposits	(26,662)	(72,940)	33,268
Repurchase agreements and other borrowings	7,893	506	(51,385)
Federal Home Loan Bank advances	77,900	60,930	199,396
Repayment of Federal Home Loan Bank advances	(32,047)	(50,613)	(181,510)
Trust preferred securities	53,188		
Cash dividends	(13,995)	(11,127)	(10,331)
Stock issued under employee benefit plans	658	504	481
Stock issued under dividend reinvestment and stock purchase plan	951	803	811
Stock options exercised	494	225	510
Stock redeemed	(4,333)	(7,023)	(6,712)
Cash paid in lieu of issuing fractional shares	(35)	(22)	(4)
Net cash provided (used) by financing activities	98,830	(23,117)	(14,704)
Net change in cash and cash equivalents	16,010	35,565	(16,830)
Cash and cash equivalents, beginning of year	103,028	67,463	84,293
Cash and cash equivalents, end of year	$ 119,038	$ 103,028	$ 67,463
Additional cash flows information:			
Interest paid	$ 53,228	$ 56,921	$ 58,810
Income tax paid	14,313	12,440	9,544

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

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NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of First Merchants Corporation ("Corporation"), and its wholly owned subsidiaries, First Merchants Bank, N.A. ("First Merchants"), Madison Community Bank ("Madison"), First United Bank ("First United"), The Randolph County Bank ("Randolph County"), Union County National Bank ("Union National"), First National Bank ("First National"), Decatur Bank and Trust Company ("Decatur"), Frances Slocum Bank & Trust Company ("Frances Slocum"), and Lafayette Bank and Trust Company ("Lafayette"), (collectively the "Banks"), First Merchants Insurance Services, Inc. ("FMIS"), First Merchants Reinsurance Company ("FMRC"), Indiana Title Insurance Company ("ITIC"), First Merchants Capital Trust I ("FMC Trust I"), First Merchants Capital Trust II ("FMC Trust II"), and First Merchants Capital Trust III ("FMC Trust III"), conform to generally accepted accounting principles and reporting practices followed by the banking industry. The more significant of the policies are described below.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Corporation is a financial holding company whose principal activity is the ownership and management of the Banks and operates in a single significant business segment. First Merchants, Union National and First National operate under national bank charters and provide full banking services, including trust services. As national banks, First Merchants, First National and Union National are subject to the regulation of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation ("FDIC"). Madison, First United, Randolph County, Decatur, Frances Slocum and Lafayette operate under state bank charters and provide full banking services, including trust services. As state banks, Madison, First United, Randolph County, Decatur, Frances Slocum and Lafayette are subject to the regulation of the Department of Financial Institutions, State of Indiana, and the FDIC.

The Banks generate commercial, mortgage, and consumer loans and receive deposits from customers located primarily in north-central and east-central Indiana and Butler County, Ohio. The Banks' loans are generally secured by specific items of collateral, including real property, consumer assets and business assets. Although the Banks have a diversified loan portfolio, a substantial portion of their debtors' ability to honor their contracts is dependent upon economic conditions in the automotive and agricultural industries.

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and all its subsidiaries, after elimination of all material intercompany transactions.

INVESTMENT SECURITIES-Debt securities are classified as held to maturity when the Corporation has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported separately in accumulated other comprehensive income, net of tax.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

LOANS HELD FOR SALE are carried at the lower of aggregate cost or market. Market is determined using the aggregate method. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income based on the difference between estimated sales proceeds and aggregate cost.

LOANS are carried at the principal amount outstanding. Certain nonaccrual and substantially delinquent loans may be considered to be impaired. A loan is impaired when, based on current information or events, it is probable that the Banks will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. In applying the provisions of Statement of Financial Accounting Standards ("SFAS") No. 114, the Corporation considers its investment in one-to-four family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. Interest income is accrued on the principal balances of loans, except for installment loans with add-on interest, for which a method that approximates the level yield method is used. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed when considered uncollectable. Interest income is subsequently recognized only to the extent cash payments are received. Certain loan fees and direct costs are being deferred and amortized as an adjustment of yield on the loans.

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

ALLOWANCE FOR LOAN LOSSES is maintained to absorb losses inherent in the loan portfolio and is based on ongoing, quarterly assessments of the probable losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current operating results. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Corporation's methodology for assessing the appropriateness of the allowance consists of three key elements - the determination of the appropriate reserves for specifically identified loans, historical losses, and environmental or qualitative factors.

Specific allowances are established in those instances where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss may be incurred. The loans that are reviewed for specific allowances are generally those internally classified as substandard, doubtful or loss, including nonaccrual loans, loans in the process of foreclosure and certain loans past due 90 days or more and still accruing interest. Additionally, management also specifically reviews any other loan with a significant loss exposure.

The Corporation's five-year average historical loss experience is used to estimate an appropriate allowance for those loans not individually reviewed. The historical loss experience is determined for each type of loan in the portfolio.

There are certain inherent risks in the Corporation's loan portfolio; accordingly, the Corporation includes certain environmental or qualitative factors in its determination of the adequacy of the allowance for loan losses. These factors include national and local economic conditions that could have an impact of the credit quality of the loan portfolio, lending policies and procedures, portfolio size and composition, delinquency and non-performing loan trends, lending management and staff, loan review systems and procedures, concentration of credit, among other factors. The evaluation of the inherent loss with respect to these factors is subject to a higher degree of uncertainty because they are not identified with specific credits.

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NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

PREMISES AND EQUIPMENT are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line and declining balance methods based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred, while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

FEDERAL RESERVE AND FEDERAL HOME LOAN BANK STOCK are required investments for institutions that are members of the Federal Reserve Bank ("FRB") and Federal Home Loan Bank ("FHLB") systems. The required investment in the common stock is based on a predetermined formula.

INTANGIBLE ASSETS that are subject to amortization, including core deposit intangibles, are being amortized on both the straight-line and accelerated basis over periods ranging from 7 to 25 years. Intangible assets are periodically evaluated as to the recoverability of their carrying value.

GOODWILL is maintained by applying the provisions of SFAS No. 142, which was adopted by the Corporation on January 1, 2002. Goodwill is reviewed for impairment annually in accordance with this statement with any loss recognized through the income statement, at that time.

INCOME TAX in the consolidated statements of income includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. The Corporation files consolidated income tax returns with its subsidiaries.

STOCK OPTIONS are granted for a fixed number of shares to employees. At December 31, 2002, the Corporation has stock-based employee compensation plans, which are described more fully in Note 16. The Corporation's stock option plans are accounted for in accordance with Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. APB No. 25 requires compensation expense for stock options to be recognized only if the market price of the underlying stock exceeds the exercise price on the date of the grant. Accordingly, the Corporation recognized compensation expense of $23,000 in 2002, 2001 and 2000, related to specific grants in which the market price exceeded the exercise price. For all remaining grants, no stock-based employee compensation cost is reflected in net income, as options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date.

(table dollar amounts in thousands, except share data)

NOTE 1

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Year Ended December 31		
	2002	2001	2000
Net income, as reported	$ 27,836	$ 22,209	$ 19,940
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(1,006)	(498)	(125)
Pro forma net income	$ 26,830	$ 21,711	$ 19,815
Earnings per share:			
Basic - as reported	$ 1.79	$ 1.71	$ 1.59
Basic - pro forma	1.72	1.67	1.58
Diluted - as reported	1.77	1.69	1.58
Diluted - pro forma	1.71	1.66	1.57

EARNINGS PER SHARE have been computed based upon the weighted average common and common equivalent shares outstanding during each year and have been restated to give effect to a five percent (5%) stock dividend on its shares of outstanding common stock distributed to stockholders on September 13, 2002.

NOTE 2

BUSINESS COMBINATIONS

Effective September 6, 2002, the Corporation acquired Stephenson Insurance Service, Inc., which was merged into FMIS, a wholly-owned subsidiary of the Corporation. The Corporation issued 36,276 shares of its common stock at a cost of $27.47 per share to complete the transaction. This acquisition was deemed to be an immaterial acquisition.

On August 28, 2002, the Corporation signed a definitive agreement to acquire CNBC Bancorp ("CNBC"), Columbus, Ohio. The acquisition will be accounted for under the purchase method of accounting. Under the terms of the agreement, the Corporation will exchange 1.01 shares of the Corporation's common stock or $29.57 in cash for each of the outstanding shares of CNBC. However, no more than $24,562,000 aggregate cash may be paid in the merger, and there may be allocations of stock to certain shareholders if this threshold is exceeded. The transaction is subject to approval by stockholders of CNBC, and appropriate regulatory agencies. The Corporation anticipates amortizing core deposit intangibles over ten years. As of December 31, 2002 CNBC had total assets and shareholders' equity of $331,741,000 and $24,265,000 respectively. To fund a portion of the cash consideration payable to the stockholders of CNBC, the Corporation will establish a wholly owned trust subsidiary that will issue and sell up to $25,000,000 in trust preferred securities of the Corporation. The preferred securities will have a 30 year maturity and a coupon rate based upon three-month LIBOR, plus 325 basis points, but LIBOR

(table dollar amounts in thousands, except share data)

NOTE 2

BUSINESS COMBINATIONS continued

shall not exceed 8.75% prior to the fifth anniversary of the closing date. The proceeds from the sale of the preferred securities will be loaned to the Corporation by the trust subsidiary in exchange for subordinated debentures with terms that are similar to the preferred securities and will be recorded as debt in the Corporation's consolidated financial statements. The subordinated debentures will be the sole asset of the trust subsidiary. Issuance costs will be amortized over the life of the preferred securities. The Corporation will guarantee the preferred securities and distributions.

On April 1, 2002, the Corporation acquired 100% of the outstanding stock of Lafayette Bancorporation, the holding company of Lafayette, which is located in Lafayette, Indiana. Lafayette is a state chartered bank with branches located in central Indiana. Lafayette Bancorporation was merged into the Corporation, and Lafayette maintained its state charter as a subsidiary of First Merchants Corporation. The Corporation issued approximately 2,911,712 shares of its common stock at a cost of $22.36 per share and approximately $50,867,000 in cash to complete the transaction. As a result of the acquisition, the Corporation has an opportunity to increase its customer base and continue to increase its market share. The purchase had a recorded acquisition price of $115,978,000, including goodwill of $57,893,000 none of which is deductible for tax purposes. Additionally, core deposit intangibles totaling $16,052,000 were recognized and will be amortized over 10 years using the 150% declining balance method.

The combination was accounted for under the purchase method of accounting. All assets and liabilities were recorded at their fair values as of April 1, 2002. The purchase accounting adjustments are being amortized over the life of the respective asset or liability. Lafayette's results of operations are included in the Corporation's consolidated income statement beginning April 1, 2002. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Investments	$104,717
Loans	552,016
Premises and equipment	10,269
Core deposit intangibles	16,052
Goodwill	57,893
Other	64,074
Total assets acquired	805,021
Deposits	607,281
Other	81,762
Total liabilities acquired	689,043
Net assets acquired	$115,978

(table dollar amounts in thousands, except share data)

NOTE 2

BUSINESS COMBINATIONS continued

The following proforma disclosures, including the effect of the purchase accounting adjustments, depict the results of operations as though the Lafayette merger had taken place at the beginning of each period.

	Year Ended December 31, 2002	2001
Net Interest Income	$ 98,855	$ 87,090
Net Income	28,016	28,504
Per share - combined:		
Basic Net Income	1.69	1.79
Diluted Net Income	1.68	1.78

Effective January 1, 2002, the Corporation acquired Delaware County Abstract Company, Inc. and Beebe & Smith Title Insurance Company, Inc., which were merged into ITIC, a wholly-owned subsidiary of the Corporation. The Corporation issued approximately 108,919 shares of its common stock at a cost of $22.38 per share to complete the transaction. ITIC's operations were subsequently contributed to Indiana Title Insurance Company, LLC in which the Corporation has a 52.12% ownership interest. This acquisition was deemed to be an immaterial acquisition.

On July 1, 2001, the Corporation acquired 100% of the outstanding stock of Francor Financial, Inc., the holding company of Frances Slocum. Frances Slocum is a state chartered bank with branches located in east-central Indiana. Francor Financial, Inc. was merged into the Corporation, and Frances Slocum maintained its state charter as a subsidiary of First Merchants Corporation. The Corporation issued 747,465 shares of its common stock at a cost of $20.51 per share and $14,490,985 in cash to complete the transaction. As a result of the acquisition, the Corporation has an opportunity to increase its customer base and continue to increase its market share. The purchase had a recorded acquisition price of $29,454,000, including goodwill of $7,907,000, none of which is deductible for tax purposes. Additionally, core deposit intangibles totaling $4,804,000 were recognized and will be amortized over 10 years using the 150% declining balance method.

The combination was accounted for under the purchase method of accounting. All assets and liabilities were recorded at their fair values as of July 1, 2001. The purchase accounting adjustments are being amortized over the life of the respective asset or liability. Francor Financial Inc.'s results of operations are included in the Corporation's consolidated income statement beginning July 1, 2001.

(table dollar amounts in thousands, except share data)

NOTE 2

BUSINESS COMBINATIONS continued

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Loans	$ 134,505
Premises and equipment	4,401
Core deposit intangibles	4,804
Goodwill	7,907
Other	34,581
Total assets acquired	186,198
Deposits	150,252
Other	6,492
Total liabilities acquired	156,744
Net assets acquired	$ 29,454

The following proforma disclosures, including the effect of the purchase accounting adjustments, depict the results of operations as though the Frances Slocum merger had taken place at the beginning of each period.

	Year Ended December 31, 2001	Year Ended December 31, 2000
Net Interest Income	$ 67,352	$ 62,296
Net Income	21,876	21,438
Per share - combined:		
Basic Net Income	1.63	1.62
Diluted Net Income	1.62	1.61

On May 31, 2000, the Corporation acquired Decatur Financial Inc., the holding company of Decatur. Decatur is a state chartered commercial bank with branches located in east-central Indiana. Decatur Financial Inc. was merged into the Corporation through the exchange of 960,230 shares of newly issued common stock and $12,355,000 of cash. The combination was accounted for under the purchase method of accounting. Decatur's' results of operations are included in the Corporation's consolidated income statement beginning June 1, 2000. The purchase resulted in core deposit intangibles of $2,046,000, which are being amortized over 10 years using 150% declining balance method. The purchase had a recorded acquisition price of $33,299,000, including goodwill of $17,040,000.

The purchase resulted in the Corporation recording net loans of $89,332,000, held to maturity and available for sale securities of $3,921,000 and $14,132,000 respectively, deposit liabilities of $107,056,000 and borrowings of $7,218,000. All assets and liabilities were recorded at fair values as of May 31, 2000. The purchase accounting adjustments are being amortized over the life of the respective asset or liability.

NOTE 2

BUSINESS COMBINATIONS continued

The following proforma disclosures, including the effect of the purchase accounting adjustments, depict the results of operations as though the Decatur merger had taken place at the beginning of the period.

	Year Ended December 31, 2000
Net Interest Income	$ 57,849
Net Income	$ 19,563
Net Income per share - combined:	
Basic	$ 1.48
Diluted	1.47

NOTE 3

RESTRICTION ON CASH AND DUE FROM BANKS

The Banks are required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2002, was $33,371,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

NOTE 4

INVESTMENT SECURITIES

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Available for sale at December 31, 2002				
U.S. Treasury	$ 125			$ 125
Federal agencies	27,630	$ 814	$ 8	28,436
State and municipal	135,715	5,787	178	141,324
Mortgage-backed securities	117,724	2,448	54	120,118
Other asset-backed securities	1,000			1,000
Corporate obligations	12,101	465		12,566
Marketable equity securities	29,452	20	116	29,356
Total available for sale	323,747	9,534	356	332,925
Held to maturity at December 31, 2002				
State and municipal	9,013	448		9,461
Mortgage-backed securities	124			124
Total held to maturity	9,137	448		9,585
Total investment securities	$332,884	$ 9,982	$ 356	$342,510
Available for sale at December 31, 2001				
U.S. Treasury	$ 124			$ 124
Federal agencies	30,808	$ 767	$ 2	31,573
State and municipal	74,776	1,644	215	76,205
Mortgage-backed securities	100,811	1,710	1	102,520
Other asset-backed securities	10,116	167		10,283
Corporate obligations	3,498	116		3,614
Marketable equity securities	7,472		123	7,349
Total available for sale	227,605	4,404	341	231,668
Held to maturity at December 31, 2001				
State and municipal	8,426	166	58	8,534
Mortgage-backed securities	228			228
Total held to maturity	8,654	166	58	8,762
Total investment securities	$236,259	$ 4,570	$ 399	$240,430

The amortized cost and fair value of securities available for sale and held to maturity at December 31, 2002, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AVAILABLE FOR SALE		HELD TO MATURITY	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Maturity distribution at December 31, 2002:				
Due in one year or less	$ 22,226	$ 22,627	$ 1,286	$ 1,310
Due after one through five years	67,198	70,148	4,857	5,120
Due after five through ten years	46,601	48,562	2,015	2,149
Due after ten years	39,546	41,114	855	882
	175,571	182,451	9,013	9,461
Mortgage-backed securities	117,724	120,118	124	124
Other asset-backed securities	1,000	1,000		
Marketable equity securities	29,452	29,356		
Totals	$323,747	$332,925	$ 9,137	$ 9,585

(table dollar amounts in thousands, except share data)

NOTE 4

INVESTMENT SECURITIES continued

Securities with a carrying value of approximately $136,269,000 and $106,476,000 were pledged at December 31, 2002 and 2001 to secure certain deposits and securities sold under repurchase agreements, and for other purposes as permitted or required by law.

In addition, all otherwise unpledged securities are pledged as collateral for Federal Home Loan Bank advances with qualified first mortgage loans.

Proceeds from sales of securities available for sale during 2002, 2001 and 2000 were $21,363,000, $770,000 and $14,654,000. Gross gains of $739,000 in 2002 and gross losses of $200,000 and $107,000 in 2001 and 2000, were realized on those sales.

NOTE 5

LOANS AND ALLOWANCE

	2002	2001
Loans at December 31:		
Commercial and industrial loans	$ 406,644	$ 301,962
Agricultural production financing and other loans to farmers	85,059	29,645
Real estate loans:		
Construction	133,896	58,316
Commercial and farmland	401,561	230,233
Residential	746,349	544,028
Individuals' loans for household and other personal expenditures	206,083	179,325
Tax-exempt loans	12,615	7,277
Other loans	12,170	8,800
	2,004,377	1,359,586
Allowance for loan losses	(22,417)	(15,141)
Total loans	$1,981,960	$1,344,445

	2002	2001	2000
Allowance for loan losses:			
Balance, January 1	$ 15,141	$ 12,454	$ 10,128
Allowance acquired in acquisitions	6,902	2,085	1,413
Provision for losses	7,174	3,576	2,625
Recoveries on loans	1,313	573	579
Loans charged off	(8,113)	(3,547)	(2,291)
Balance, December 31	$ 22,417	$ 15,141	$ 12,454

Information on nonaccruing, contractually past due 90 days or more other than nonaccruing and restructured loans is summarized below:	2002	2001	2000
At December 31:			
Non-accrual loans	$14,134	$ 6,327	$2,370
Loans contractually past due 90 days or more other than nonaccruing	6,676	4,828	2,483
Restructured loans	2,508	3,511	3,085

(table dollar amounts in thousands, except share data)

NOTE 5

LOANS AND ALLOWANCE continued

Nonaccruing loans are loans which are reclassified to a nonaccruing status when in management's judgment the collateral value and financial condition of the borrower do not justify accruing interest. Interest previously recorded, but not deemed collectible, is reversed and charged against current income. Interest income on these loans is then recognized when collected.

Restructured loans are loans for which the contractual interest rate has been reduced or other concessions are granted to the borrower, because of a deterioration in the financial condition of the borrower resulting in the inability of the borrower to meet the original contractual terms of the loans.

Information on impaired loans is summarized below:	2002	2001	2000
As of, and for the year ending December 31:			
Impaired loans with an allowance	$16,901	$10,381	$ 7,862
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	27,450	10,780	6,977
Total impaired loans	$44,351	$21,161	$14,839
Total impaired loans as a percent of total loans	2.19%	1.56%	1.26%
Allowance for impaired loans (included in the Corporation's allowance for loan losses)	$ 7,299	$ 3,251	$ 2,253
Average balance of impaired loans	49,663	22,327	15,053
Interest income recognized on impaired loans	3,656	1,538	1,361
Cash basis interest included above	2,344	1,555	1,080

NOTE 6

PREMISES AND EQUIPMENT

	2002	2001
Cost at December 31:		
Land	$ 6,473	$ 5,626
Buildings and leasehold improvements	39,768	26,747
Equipment	34,898	26,127
Total cost	81,139	58,500
Accumulated depreciation and amortization	(42,494)	(30,816)
Net	$ 38,645	$ 27,684

The Corporation is committed under various noncancelable lease contracts for certain subsidiary office facilities. Total lease expense for 2002, 2001 and 2000 was $1,027,000, $771,000 and $515,000, respectively. The future minimum rental commitments required under the operating leases in effect at December 31, 2002, expiring at various dates through the year 2013 are as follows for the years ending December 31:

2003	$ 967
2004	795
2005	533
2006	567
2007	345
After 2007	323
Total future minimum obligations	$3,530

(table dollar amounts in thousands, except share data)

NOTE 7

GOODWILL

During 2002, the Corporation changed its method of accounting and financial reporting for goodwill and other intangible assets by adopting the provisions of SFAS No. 142. Had the new method been applied retroactively, the previously reported 2001 and 2000 net income would have increased by $1,070,000 and $724,000, respectively. No impairment loss was recorded in 2002.

NOTE 8

CORE DEPOSIT INTANGIBLES

The carrying basis and accumulated amortization of recognized core deposit intangibles at December 31 were:

	2002	2001
Gross carrying amount	$ 22,902	$ 6,850
Accumulated amortization	(3,325)	(754)
Core deposit intangibles	$ 19,577	$ 6,096

Amortization expense for the years ended December 31, 2002, 2001 and 2000, was $2,571,000, $612,000 and $142,000, respectively. Estimated amortization expense for each of the following five years is:

2003	$2,837
2004	2,764
2005	2,694
2006	2,625
2007	2,560

(table dollar amounts in thousands, except share data)

NOTE 9

DEPOSITS

	2002	2001
Deposits at December 31:		
Demand deposits	$ 594,961	$ 418,481
Savings deposits	567,186	366,084
Certificates and other time deposits of $100,000 or more	199,734	192,400
Other certificates and time deposits	674,807	444,286
Total deposits	$2,036,688	$1,421,251

Certificates and other time deposits maturing in years ending December 31:	
2003	$479,891
2004	209,698
2005	66,587
2006	44,210
2007	71,035
After 2007	3,120
	$874,541

NOTE 10

BORROWINGS

	2002	2001
Borrowings at December 31:		
Securities sold under repurchase agreements	$ 89,594	$ 45,632
Federal funds purchased		10,500
U. S. Treasury demand notes		6,273
Federal Home Loan Bank advances	184,677	103,499
Trust preferred securities	53,188	
Other borrowed funds	29,468	8,500
Total borrowings	$356,927	$174,404

Securities sold under repurchase agreements consist of obligations of the Banks to other parties. The obligations are secured by U.S. Treasury, Federal agency obligations and corporate asset-backed securities. The maximum amount of outstanding agreements at any month-end during 2002 and 2001 totaled $89,594,000 and $68,546,000, and the average of such agreements totaled $72,791,000 and $59,365,000.

(table dollar amounts in thousands, except share data)

NOTE 10

BORROWINGS continued

Maturities of Federal Home Loan Bank advances and securities sold under repurchase agreements as of December 31, 2002, are as follows:

	FEDERAL HOME LOAN BANK ADVANCES		SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	
	AMOUNT	WEIGHTED-AVERAGE INTEREST RATE	AMOUNT	WEIGHTED-AVERAGE INTEREST RATE
Maturities in years ending December 31:				
2003	$ 15,626	5.10%	$65,962	1.07%
2004	18,000	4.84	14,382	5.62
2005	18,500	4.65	9,250	5.64
2006	20,403	4.95		
2007	10,495	4.38		
After 2007	101,653	5.11		
Total	$184,677	4.98%	$89,594	2.28%

The terms of a security agreement with the FHLB require the Corporation to pledge, as collateral for advances, qualifying first mortgage loans and all otherwise unpledged investment securities in an amount equal to at least 160 percent of these advances. Advances are subject to restrictions or penalties in the event of prepayment.

On April 12, 2002, the Corporation and FMC Trust I (the "Trust") entered into an Underwriting Agreement with Stifel, Nicolaus & Company, Incorporated and RBC Dain Rauscher Inc. for themselves and as co-representatives for several other underwriters (the "Underwriting Agreement"). On April 17, 2002 and pursuant to the Underwriting Agreement, the Trust issued 1,850,000 8.75% Cumulative Trust Preferred Securities (liquidation amount $25 per Preferred Security) (the "Preferred Securities") with an aggregate liquidation value of $46,250,000. On April 23, 2002 and pursuant to the Underwriting Agreement, the Trust issued an additional 277,500 Preferred Securities with an aggregate liquidation value of $6,937,500 to cover over-allotments. The proceeds from the sale of the Preferred Securities were invested by the Trust in the Corporation's 8.75% Junior Subordinated Debentures due June 30, 2032 (the "Debentures"). The proceeds from the issuance of the Debentures were used by the Corporation to fund a portion of the cash consideration payable to the shareholders of Lafayette Bancorporation in connection with the acquisition of Lafayette. The Preferred Securities are recorded as borrowings in the Corporation's consolidated December 31, 2002, balance sheet. Issuance costs are being amortized over the life of the Preferred Securities. Distributions are paid quarterly on March 31, June 30, September 30 and December 31 of each year. The Debentures will mature and the Preferred Securities must be redeemed on June 30, 2032. The Trust has the option of shortening the maturity date to a date not earlier than June 30, 2007, requiring prior approval of the Board of Governors of the Federal Reserve System.

(table dollar amounts in thousands, except share data)

NOTE 10

BORROWINGS continued

At December 31, 2002, other borrowed funds included $19,300,000 of an unsecured revolving credit note payable to the Northern Trust Company with interest payable monthly based upon the Federal Funds Rate plus .875%. Principal and remaining interest are due on or before March 31, 2003. The total principal amount outstanding at any one time may not exceed $25,000,000.

NOTE 11

LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The loans are serviced primarily for the Federal Home Loan Mortgage Corporation, and the unpaid balances totaled $48,773,000, $37,909,000 and $22,591,000 at December 31, 2002, 2001 and 2000. The amount of capitalized servicing assets is considered immaterial.

NOTE 12

INCOME TAX

	2002	2001	2000
Income tax expense for the year ended December 31:			
Currently payable:			
Federal	$ 11,869	$ 9,098	$ 9,236
State	2,615	2,210	1,499
Deferred:			
Federal	(446)	406	(715)
State	(57)	210	(52)
Total income tax expense	$ 13,981	$ 11,924	$ 9,968
Reconciliation of federal statutory to actual tax expense:			
Federal statutory income tax at 34%	$ 14,085	$ 11,539	$ 10,169
Tax-exempt interest	(2,006)	(1,319)	(1,308)
Graduated tax rates	355	312	299
Effect of state income taxes	1,613	1,597	941
Other	(66)	(205)	(133)
Actual tax expense	$ 13,981	$ 11,924	$ 9,968

(table dollar amounts in thousands, except share data)

NOTE 12

INCOME TAX continued

Tax expense (benefit) applicable to security gains and losses for the years ended December 31, 2002, 2001 and 2000, was $296,000, ($80,000) and $(43,000), respectively.

A cumulative net deferred tax asset (liability) is included in the consolidated balance sheets. The components of the asset (liability) are as follows:

	2002	2001
Deferred tax asset at December 31:		
Assets:		
Differences in accounting for loan losses	$ 8,820	$5,103
Deferred compensation	1,949	1,069
Other	157	268
Total assets	10,926	6,440
Liabilities:		
Differences in depreciation methods	1,058	838
Differences in accounting for loans and securities	7,072	2,137
Differences in accounting for loan fees	383	436
Differences in accounting for pensions and other employee benefits	86	315
State income tax	57	115
Net unrealized gain on securities available for sale	2,513	1,464
Other	1,040	756
Total liabilities	12,209	6,061
Net deferred tax asset (liability)	$(1,283)	$ 379

NOTE 13

COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business there are outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Banks use the same credit policies in making such commitments as they do for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk as of December 31, were as follows:

	2002	2001
Commitments to extend credit	$312,146	$199,656
Standby letters of credit	18,124	9,806

NOTE 13

COMMITMENTS AND CONTINGENT LIABILITIES continued

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Banks evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Banks upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party.

The Corporation and subsidiaries are also subject to claims and lawsuits, which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Corporation.

NOTE 14

STOCKHOLDERS' EQUITY

National and state banking laws restrict the maximum amount of dividends that a bank may pay in any calendar year. National and state banks are limited to the bank's retained net income (as defined) for the current year plus those for the previous two years. At December 31, 2002, First United, Union National, Decatur and Frances Slocum, had no retained net profits available for 2003 dividends to the Corporation without prior regulatory approval. The amount at December 31, 2002, available for 2003 dividends from First Merchants, Madison, Randolph County, First National and Lafayette to the Corporation totaled $6,279,000, $758,000, $903,000, $962,000 and $6,245,000, respectively.

Total stockholders' equity for all subsidiaries at December 31, 2002, was $320,320,000, of which $300,073,000 was restricted from dividend distribution to the Corporation.

The Corporation has a Dividend Reinvestment and Stock Purchase Plan, enabling stockholders to elect to have their cash dividends on all shares held automatically reinvested in additional shares of the Corporation's common stock. In addition, stockholders may elect to make optional cash payments up to an aggregate of $2,500 per quarter for the purchase of additional shares of common stock. The stock is credited to participant accounts at fair market value. Dividends are reinvested on a quarterly basis. At December 31,

NOTE 14

STOCKHOLDERS' EQUITY continued

2002, there were 337,020 shares of common stock reserved for purchase under the plan.

On August 13, 2002, the Board of Directors of the Corporation declared a five percent (5%) stock dividend on its outstanding common shares. The new shares were distributed on September 13, 2002, to holders of record on August 30, 2002.

On August 14, 2001, the Board of Directors of the Corporation declared a five percent (5%) stock dividend on its outstanding common shares. The new shares were distributed on September 24, 2001, to holders of record on September 3, 2001.

NOTE 15

REGULATORY CAPITAL

The Corporation and Banks are subject to various regulatory capital requirements administered by the federal banking agencies and are assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated according to the regulations: total risk adjusted capital, Tier 1 capital, and Tier 1 leverage ratios. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures of the entity. The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios.

There are five capital categories defined in the regulations, ranging from well capitalized to critically undercapitalized. Classification of a bank in any of the undercapitalized categories can result in actions by regulators that could have a material effect on a bank's operations.

At December 31, 2002, the management of the Corporation believes that it meets all capital adequacy requirements to which it is subject. The most recent notifications from the regulatory agencies categorized the Corporation and Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain a minimum total capital to risk-weighted assets, Tier I capital to risk-weighted assets and Tier I capital to average assets of 10 percent, 6 percent and 5 percent, respectively. There have been no conditions or events since that notification that management believes have changed this categorization.

(table dollar amounts in thousands, except share data)

NOTE 15

REGULATORY CAPITAL continued

Actual and required capital amounts and ratios are listed below.

	2002				2001			
	ACTUAL		REQUIRED FOR ADEQUATE CAPITAL (1)		ACTUAL		REQUIRED FOR ADEQUATE CAPITAL (1)	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
December 31								
Total Capital (1)(to risk-weighted assets)								
Consolidated	$224,967	11.17%	$161,087	8.00%	$159,315	11.75%	$108,514	8.00%
First Merchants	69,424	11.69	47,493	8.00	70,562	11.69	48,281	8.00
Madison	21,040	11.45	14,706	8.00	19,329	11.61	13,320	8.00
First United	7,429	12.97	4,581	8.00	8,245	13.17	5,009	8.00
Randolph County	7,616	11.27	5,407	8.00	7,009	11.97	4,684	8.00
Union County	16,636	12.35	10,778	8.00	17,897	13.50	10,606	8.00
First National	10,211	11.37	7,182	8.00	10,387	12.34	6,731	8.00
Decatur	11,462	11.77	7,789	8.00	11,871	14.41	6,588	8.00
Frances Slocum	16,259	11.68	11,132	8.00	13,634	10.25	10,638	8.00
Lafayette	67,912	11.00	49,387	8.00				
Tier I Capital (1)(to risk-weighted assets)								
Consolidated	$202,550	10.06%	$ 80,543	4.00%	$144,174	10.63%	$ 54,257	4.00%
First Merchants	63,776	10.74	23,746	4.00	64,817	10.74	24,140	4.00
Madison	18,978	10.32	7,353	4.00	17,852	10.72	6,660	4.00
First United	6,713	11.72	2,290	4.00	7,546	12.05	2,504	4.00
Randolph County	6,771	10.02	2,703	4.00	6,277	10.72	2,342	4.00
Union County	15,202	11.28	5,389	4.00	16,332	12.32	5,303	4.00
First National	9,324	10.39	3,591	4.00	9,389	11.16	3,366	4.00
Decatur	10,242	10.52	3,895	4.00	10,834	13.16	3,294	4.00
Frances Slocum	14,510	10.43	5,566	4.00	12,007	9.03	5,319	4.00
Lafayette	61,111	9.90	24,694	4.00				
Tier I Capital (1) (to average assets)								
Consolidated	$202,550	7.92%	$102,309	4.00%	$144,174	8.70%	$ 66,298	4.00%
First Merchants	63,776	8.14	31,327	4.00	64,817	8.17	31,737	4.00
Madison	18,978	8.47	8,959	4.00	17,852	8.24	8,667	4.00
First United	6,713	8.32	3,226	4.00	7,546	9.52	3,171	4.00
Randolph County	6,771	7.64	3,546	4.00	6,277	7.73	3,250	4.00
Union County	15,202	7.38	8,239	4.00	16,332	7.94	8,227	4.00
First National	9,324	8.20	4,547	4.00	9,389	7.93	4,736	4.00
Decatur	10,242	7.66	5,350	4.00	10,834	8.40	5,159	4.00
Frances Slocum	14,510	8.37	6,933	4.00	12,007	7.05	6,809	4.00
Lafayette	61,111	7.93	30,813	4.00				

(1) as defined by regulatory agencies

NOTE 16

EMPLOYEE BENEFIT PLANS

The Corporation's defined-benefit pension plans cover substantially all of the Corporation's employees. The benefits are based primarily on years of service and employees' pay near retirement. Contributions are intended to provide not only for benefits attributed to service-to-date, but also for those expected to be earned in the future.

(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

The table below sets forth the plans' funded status and amounts recognized in the consolidated balance sheets at December 31:

	December 31 2002	2001
Change in benefit obligation		
Benefit obligation at beginning of year	$ 20,172	$ 16,953
Obligation acquired in acquisition	17,712	
Service cost	2,007	926
Interest cost	2,470	1,269
Actuarial loss	3,971	2,048
Benefits paid	(1,614)	(1,024)
Benefit obligation at end of year	44,718	20,172
Change in plan assets		
Fair value of plan assets at beginning of year	20,638	23,967
Fair value of plan assets acquired in acquisition	15,507	
Actual loss on plan assets	(2,881)	(2,305)
Benefits paid	(1,614)	(1,024)
Fair value of plan assets at end of year	31,650	20,638
Funded (unfunded) status	(13,068)	466
Unrecognized net actuarial loss	12,940	442
Unrecognized prior service cost	1,986	(107)
Unrecognized transition asset	(329)	(69)
Prepaid benefit cost	1,529	732
Additional pension liability	(3,810)	
Net minimum liability	$ (2,281)	$ 732
Amounts recognized in the balance sheets consist of:		
Prepaid benefit cost	$ 1,529	$ 732
Additional pension liability	(3,810)	
Intangible asset	1,613	
Deferred taxes	879	
Accumulated other comprehensive loss	1,318	
Net amount recognized	$ 1,529	$ 732

	2002	2001	2000
Pension cost (benefit) includes the following components:(1)			
Service cost-benefits earned during the year	$ 1,770	$ 926	$ 714
Interest cost on projected benefit obligation	2,202	1,269	1,181
Actual (return) loss on plan assets	2,654	2,305	(2,570)
Net amortization and deferral	(5,674)	(4,858)	160
Total pension cost (benefit)	$ 952	$ (358)	$ (515)

(1) Lafayette components are included beginning as of April 1, 2002.

	2002	2001	2000
Assumptions used in the accounting as of December 31 were:			
Discount rate	6.75%	7.11%	7.70%
Rate of increase in compensation	4.00%	4.00%	4.00%
Expected long-term rate of return on assets	8.14%	9.00%	9.00%

The 1994 Stock Option Plan reserved 520,931 shares of Corporation common stock for the granting of options to certain employees and non-employee directors. The exercise price of the shares may not be less than the fair market value of the shares upon the grant of the option. Options become 100 percent vested when granted and are fully exercisable generally six months after the date of the grant, for a period of ten years. There were no shares available for grant.

(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

The 1999 Long-term Equity Incentive Plan reserved 1,323,000 shares of Corporation common stock for the granting of options to certain employees and non-employee directors. The maximum number of options granted in any given year cannot exceed 1.5% of the shares outstanding at the end of the prior fiscal year. Options, which have a ten year life, become 100 percent vested ranging from six month to two years and are fully exercisable when vested. There were 939,484 shares available for grant at December 31, 2002.

The table below is a summary of the status of the Corporation's stock option plans and changes in those plans as of and for the years ended December 31, 2002, 2001 and 2000. The number of shares and prices have been restated to give effect to the Corporation's 2002 stock dividend.

Year Ended December 31,	2002		2001		2000	
OPTIONS	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding, beginning of year	734,111	$ 18.81	626,943	$ 17.99	626,529	$ 17.74
Granted	158,819	28.19	136,503	20.69	142,168	19.32
Exercised	(68,131)	13.38	(25,449)	10.30	(52,812)	14.64
Cancelled	(22,339)	23.29	(3,886)	20.84	(88,942)	20.26
Outstanding, end of year	802,460	$ 21.01	734,111	$ 18.81	626,943	$ 17.99
Options exercisable at year end	542,627		494,962		493,128	
Weighted-average fair value of options granted during the year		$ 7.84		$ 6.00		$ 4.97

As of December 31, 2002, other information by exercise price range for options outstanding and exercisable is as follows:

	OUTSTANDING			EXERCISABLE	
EXERCISE PRICE RANGE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
$ 0.00 - $19.19	329,799	$16.61	4.7 years	328,563	$16.67
20.55 - 26.04	310,001	21.92	7.2 years	201,168	22.57
26.60 - 28.64	162,660	28.20	9.2 years	12,896	27.61
	802,460	$21.01	6.5 years	542,627	$19.11

Although the Corporation has elected to follow APB No. 25, SFAS No. 123 requires pro forma disclosures of net income and earnings per share as if the Corporation had accounted for its employee stock options under that Statement.

(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

The fair value of each option grant was estimated on the grant date using an option-pricing model with the following assumptions:

	2002	2001	2000
Risk-free interest rates........	4.78%	5.32%	6.01%
Dividend yields.................	3.63%	3.59%	3.38%
Volatility factors of expected market price common stock...	31.02%	30.95%	22.86%
Weighted-average expected life of the options	8.50 years	8.50 years	8.50 years

Under SFAS No. 123, compensation cost is recognized in the amount of the estimated fair value of the options and amortized to expense over the options' vesting period. The pro forma effect on net income and earnings per share of this statement are shown in Note 1 to the consolidated financial statements.

The 1999 Employee Stock Purchase Plan enables eligible employees to purchase the Corporation's common stock. A total of 275,625 shares of the Corporation's common stock were initially reserved for issuance pursuant to the plan. The price of the stock to be paid by the employees is determined by the Corporation's compensation committee, but may not be less than 85 percent of the lesser of the fair market value of the Corporation's common stock at the beginning or at the end of the offering period. Common stock purchases are made annually and are paid through advance payroll deductions of up to 20 percent of eligible compensation. Participants under the plan purchased 37,394 shares in 2002 at $17.61 per share. The fair value on the purchase date was $28.28.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

NOTE 16

EMPLOYEE BENEFIT PLANS continued

At December 31, 2002, there were 195,217 shares of Corporation common stock reserved for purchase under the plan, and $453,000 has been withheld from compensation, plus interest, toward the purchase of shares after June 30, 2003, the end of the annual offering period.

The Corporation's Employee Stock Purchase Plan is accounted for in accordance with APB No. 25. Although the Corporation has elected to follow APB No. 25, SFAS No. 123 requires pro forma disclosures of net income and earnings per share as if the Corporation had accounted for the purchased shares under that statement. The pro forma disclosures are included in Note 1 to the consolidated financial statements and were estimated using an option pricing model with the following assumptions for 2002, 2001 and 2000, respectively: dividend yield of 3.63, 3.59, and 3.38 percent; an expected life of one year for all years; expected volatility of 31.02, 30.95, and 22.86 percent; and risk-free interest rates of 4.78, 5.32 and 6.01 percent. The fair value of those purchase rights granted in 2002, 2001 and 2000 was $10.65, $5.36 and $3.82 respectively.

The Corporation maintains retirement savings 401(k) plans in which substantially all employees may participate. The Corporation matches employees' contributions at the rate of 25 to 50 percent for the first 4 to 6 percent of base salary contributed by participants. The Corporations' expense for the plans was $315,000 for 2002, $190,000 for 2001 and $182,000 for 2000.

NOTE 17

NET INCOME PER SHARE

Year Ended December 31,	2002			2001			2000		
	INCOME	WEIGHTED-AVERAGE SHARES	PER SHARE AMOUNT	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	$27,836	15,585,512	$1.79	$22,209	13,019,984	$1.71	$19,940	12,504,930	$1.59
Effect of dilutive stock options..		131,146			93,811			86,960	
Diluted net income per share:									
Net income available to common stockholders and assumed conversions	$27,836	15,716,658	$1.77	$22,209	13,113,795	$1.69	$19,940	12,591,890	$1.58

Options to purchase 154,483, 117,625 and 228,708 shares of common stock with weighted average exercise prices of $27.24, $24.76, and $22.62 at December 31, 2002, 2001 and 2000 were excluded from the computation of diluted net income per share because the options exercise price was greater than the average market price of the common stock.

NOTE 18

FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

CASH AND CASH EQUIVALENTS The fair value of cash and cash equivalents approximates carrying value.

INTEREST-BEARING TIME DEPOSITS The fair value of interest-bearing time deposits approximates carrying value.

INVESTMENT SECURITIES Fair values are based on quoted market prices.

MORTGAGE LOANS HELD FOR SALE The fair value of mortgages held for sale approximates carrying values.

LOANS For both short-term loans and variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value for other loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

FEDERAL RESERVE AND FEDERAL HOME LOAN BANK STOCK The fair value of FRB and FHLB stock is based on the price at which it may be resold to the FRB and FHLB.

INTEREST RECEIVABLE/PAYABLE The fair values of interest receivable/payable approximate carrying values.

CASH SURRENDER VALUE OF LIFE INSURANCE The fair value of cash surrender value of life insurance approximates carrying value.

DEPOSITS The fair values of noninterest-bearing demand accounts, interest-bearing demand accounts and savings deposits are equal to the amount payable on demand at the balance sheet date. The carrying amounts for variable rate, fixed-term certificates of deposit approximate their fair values at the balance sheet date. Fair values for fixed-rate certificates of deposit and other time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on such time deposits.

(table dollar amounts in thousands, except share data)

NOTE 18

FAIR VALUES OF FINANCIAL INSTRUMENTS continued

FEDERAL FUNDS PURCHASED, U.S. TREASURY DEMAND NOTES AND OTHER BORROWED FUNDS

These financial instruments are short-term borrowing arrangements. The rates at December 31, approximate market rates, thus the fair value approximates carrying value.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS, FEDERAL HOME LOAN BANK ADVANCES AND TRUST PREFERRED SECURITIES

The fair value of the these borrowings is estimated using a discounted cash flow calculation, based on current rates for similar debt.

OFF-BALANCE SHEET COMMITMENTS

Loan commitments and letters-of-credit generally have short-term, variable-rate features and contain clauses which limit the Banks' exposure to changes in customer credit quality. Accordingly, their carrying values, which are immaterial at the respective balance sheet dates, are reasonable estimates of fair value.

The estimated fair values of the Corporation's financial instruments are as follows:

	2002		2001	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets at December 31:				
Cash and cash equivalents	$ 119,038	$ 119,038	$ 103,028	$ 103,028
Interest-bearing time deposits	3,568	3,568	3,871	3,871
Investment securities available for sale	332,925	332,925	231,668	231,668
Investment securities held to maturity	9,137	9,585	8,654	8,762
Mortgage loans held for sale	21,545	21,545	307	307
Loans	1,981,960	2,008,189	1,344,445	1,386,515
FRB and FHLB stock	11,409	11,409	8,350	8,350
Interest receivable	17,346	17,346	12,024	12,024
Cash surrender of life insurance	14,309	14,309	6,470	6,470
Liabilities at December 31:				
Deposits	2,036,688	2,063,474	1,421,251	1,448,336
Borrowings:				
Securities sold under repurchase agreements	89,594	90,138	45,632	45,939
Federal funds purchased			10,500	10,500
U.S. Treasury demand notes			6,273	6,273
FHLB advances	184,677	196,244	103,499	105,955
Trust preferred securities	53,188	57,655		
Other borrowed funds	29,468	29,468	8,500	8,500
Interest payable	6,019	6,019	5,488	5,488

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

NOTE 19

CONDENSED FINANCIAL INFORMATION (parent company only)

Presented below is condensed financial information as to financial position, results of operations, and cash flows of the Corporation:

CONDENSED BALANCE SHEET

	December 31, 2002	December 31, 2001
Assets		
Cash	$ 4,404	$ 3,041
Investment securities available for sale	3,500	3,500
Investment in subsidiaries	320,309	180,423
Goodwill	448	448
Other assets	12,265	1,396
Total assets	$340,926	$188,808
Liabilities		
Borrowings	$ 74,132	$ 8,500
Other liabilities	5,665	1,180
Total liabilities	79,797	9,680
Stockholders' equity	261,129	179,128
Total liabilities and stockholders' equity	$340,926	$188,808

CONDENSED STATEMENT OF INCOME

	December 31, 2002	2001	2000
Income			
Dividends from subsidiaries	$ 22,720	$ 20,245	$ 71,705
Administrative services fees	6,580	4,133	
Other income	535	269	174
Total income	29,835	24,647	71,879
Expenses			
Amortization of core deposit intangibles, goodwill, and fair value adjustments	28	66	50
Interest expense	3,858	88	788
Salaries and employee benefits	7,641	4,767	185
Net occupancy expenses	1,527	1,002	11
Equipment expenses	1,447	898	18
Telephone expenses	1,543	547	
Other expenses	2,767	1,003	581
Total expenses	18,811	8,371	1,633
Income before income tax benefit and equity in undistributed income of subsidiaries	11,024	16,276	70,246
Income tax benefit	4,336	1,567	496
Income before equity in undistributed income of subsidiaries	15,360	17,843	70,742
Equity in undistributed (distributions in excess of) income of subsidiaries	12,476	4,366	(50,802)
Net Income	$ 27,836	$ 22,209	$ 19,940

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(table dollar amounts in thousands, except share data)

NOTE 19

CONDENSED FINANCIAL INFORMATION (parent company only)

CONDENSED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	2000
Operating activities:			
Net income	$ 27,836	$ 22,209	$ 19,940
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	28	66	50
Distributions in excess of (equity in undistributed) income of subsidiaries	(12,476)	(4,366)	50,802
Net change in:			
Other assets	(6,892)	(1,274)	(36)
Other liabilities	4,430	(842)	1,270
Net cash provided by operating activities	12,926	15,793	72,026
Investing activities:			
Net change in loans			2,350
Purchase of securities available for sale		(3,500)	
Proceeds from sales of securities available for sale			
Investment in subsidiary	(51,135)	(14,296)	(14,159)
Net cash used by investing activities	(51,135)	(17,796)	(11,809)
Financing activities:			
Cash dividends	(13,995)	(11,127)	(10,331)
Borrowing from affiliates			13,000
Repayment of borrowings from affiliates			(45,000)
Borrowings	55,832	8,500	
Stock issued under employee benefit plans	658	504	481
Stock issued under dividend reinvestment and stock purchase plan	951	803	811
Stock options exercised	494	225	510
Stock redeemed	(4,333)	(7,023)	(6,712)
Cash paid in lieu of issuing fractional shares	(35)	(22)	(4)
Net cash provided (used) by financing activities	39,572	(8,140)	(47,245)
Net change in cash	1,363	(10,143)	12,972
Cash, beginning of year	3,041	13,184	212
Cash, end of year	$ 4,404	$ 3,041	$ 13,184

NOTE 20

QUARTERLY RESULTS OF OPERATIONS (unaudited)

The following table sets forth certain quarterly results for the years ended December 31, 2002 and 2001:

QUARTER ENDED	INTEREST INCOME	INTEREST EXPENSE	NET INTEREST INCOME	PROVISION FOR LOAN LOSSES	NET INCOME	AVERAGE SHARES OUTSTANDING BASIC	AVERAGE SHARES OUTSTANDING DILUTED	NET INCOME PER SHARE BASIC	NET INCOME PER SHARE DILUTED
2002:									
March	$ 27,591	$ 10,213	$ 17,378	$ 1,192	$ 5,479	13,417,284	13,531,873	$ .41	$ .41
June	39,678	14,596	25,082	1,284	7,940	16,306,998	16,472,869	.49	.48
September	40,148	14,820	25,328	1,821	7,827	16,265,998	16,404,150	.49	.48
December	39,265	14,130	25,135	2,877	6,590	16,312,476	16,411,523	.40	.40
	$ 146,682	$ 53,759	$ 92,923	$ 7,174	$ 27,836	15,585,512	15,716,658	$1.79	$1.77
2001:									
March	$ 30,088	$ 15,399	$ 14,689	$ 653	$ 5,106	12,786,906	12,875,153	$ .40	$ .40
June	29,267	13,997	15,270	695	5,574	12,626,115	12,710,432	.44	.44
September	31,558	14,296	17,262	1,023	6,020	13,346,954	13,444,218	.45	.44
December	29,522	12,382	17,140	1,205	5,509	13,310,613	13,421,575	.42	.41
	$ 120,435	$ 56,074	$ 64,361	$ 3,576	$ 22,209	13,019,984	13,113,795	$1.71	$1.69

NOTE 21

SUBSEQUENT EVENT

Effective January 1, 2003, the Corporation formed Merchants Trust Company, National Association ("MTC"), a wholly-owned subsidiary of the Corporation, through a capital contribution totaling approximately $2,038,000. On January 1, 2003, MTC purchased the trust operations of First Merchants, First National and Lafayette for a fair value acquisition price of $20,687,000. MTC unites the trust and asset management services of all affiliate banks of the Corporation. All intercompany transactions related to this purchase by MTC will be eliminated in the consolidated financial statements of the Corporation.

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STOCKHOLDER INFORMATION

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First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana. It was organized in September, 1982, as the bank holding company for Merchants National Bank of Muncie, now First Merchants Bank, National Association. Since its organization, First Merchants Corporation has grown to include nine affiliate banks with 69 locations in 18 Indiana counties and one Ohio county, a multi-line insurance agency, a title insurance company and a trust company.

Subsidiaries of the Corporation include First Merchants Bank, National Association in Delaware and Hamilton Counties, The Madison Community Bank in Madison County, First United Bank in Henry County, The Union County National Bank of Liberty (with offices in Union, Fayette, Wayne and Oxford (OH) Counties), The Randolph County Bank, The First National Bank of Portland in Jay County, Decatur Bank & Trust Company in Adams County, Frances Slocum Bank and Trust Company (with offices in Wabash, Howard and Miami Counties) and Lafayette Bank and Trust Company (with offices in Carroll, Jasper, White and Tippecanoe Counties). The Corporation also operates First Merchants Insurance Services, a full-service property casualty, personal lines, and healthcare insurer, headquartered in Muncie, Indiana, and is a majority owner of the Indiana Title Insurance Company, LLC, a title insurance agency.

Effective January 1, 2003, First Merchants Corporation formed Merchants Trust Company, National Association. This unites the trust and asset management services of all affiliate banks of the Corporation and represents one of the largest trust companies in the state of Indiana, with assets in excess of $1.3 billion. Merchants Trust Company provides a full range of trust and investment services for individuals, families, businesses, and not-for-profit organizations. In addition, Merchants Trust Company specializes in turn-key retirement plans, including pension plans, profit sharing, 401(k) and 403(b) plans, cross-tested plans, and cash balance plans.

First Merchants Corporation is one of only two Indiana-based companies listed among America's Finest Companies, an investment guide published by The Staton Institute. First Merchants continues to receive an A+ rating from Standard & Poor's for its common stock (NASDAQ symbol FRME) and Blue Ribbon status for all affiliate banks from independent bank-rating service Veribanc. At the end of 2002, First Merchants Corporation has accomplished 27 years of consecutive increased earnings.

First Merchants Corporation's operating philosophy is to be client focused, value driven, plan disciplined, and managed for achievers from both an employee and shareholder perspective.

Corporate Office
200 East Jackson Street
Muncie, Indiana 47305

765-747-1500
http://wwww.firstmerchants.com

ANNUAL MEETING, STOCK PRICE & DIVIDEND INFORMATION

First Merchants Corporation currently provides services through 69 offices located in Adams, Delaware, Carroll, Fayette, Hamilton, Henry, Howard, Boone, Jasper, Jay, Madison, Miami, Wabash, Wayne, White, Randolph, Tippecanoe and Union counties in Indiana and Butler County in Ohio.

The 2003 Annual Meeting of Stockholders
of First Merchants Corporation
will be held...

Thursday, April 10, 2003 at 3:30 p.m.

Horizon Convention Center
401 South High Street
Muncie, Indiana

STOCK INFORMATION

QUARTER	PRICE PER SHARE HIGH 2002	PRICE PER SHARE HIGH 2001	PRICE PER SHARE LOW 2002	PRICE PER SHARE LOW 2001	DIVIDENDS DECLARED(1) 2002	DIVIDENDS DECLARED(1) 2001
First Quarter	$ 25.76	$ 22.90	$ 20.95	$ 18.99	$ .22	$ .22
Second Quarter	28.71	21.70	24.29	19.72	.22	.22
Third Quarter	28.75	23.57	21.43	19.96	.23	.22
Fourth Quarter	25.47	23.78	21.66	21.57	.23	.22

(1) The Liquidity section of Management's Discussion & Analysis of Financial Condition and Results of Operations and Note 14 to Consolidated Financial Statements include discussions regarding dividend restrictions from the bank subsidiaries to the Corporation.

The table above lists per share prices and dividend payments during 2002 and 2001. Prices are as reported by the National Association of Securities Dealers. Automated Quotation - National Market System.

Numbers rounded to nearest cent when applicable.

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COMMON STOCK LISTING & MARKET MAKERS

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COMMON STOCK LISTING

First Merchants Corporation common stock is traded over-the-counter on the NASDAQ National Market System. Quotations are carried in many daily papers. The NASDAQ symbol is FRME (Cusip #320817-10-9). At the close of business on January 31, 2003, the number of shares outstanding was 16,323,429. There were 2,890 stockholders of record on that date.

General stockholder inquiries

Stockholders and interested investors may obtain information about the Corporation upon written request or by calling:

Mr. Brian Edwards
Shareholder Relations Officer
First Merchants Corporation
P. O. Box 792
Muncie, Indiana 47308-0792
765-741-7278
1-800-262-4261 Ext. 7278
Stock transfer agent and registrar
American Stock Transfer & Trust Company
59 Maiden Lane, 1st Floor
New York, NY 10038

MARKET MAKERS

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

First Tennessee Securities
Geduld, LLC
Keefe, Bruyette & Woods, Inc.
Knight Securities, L.P.
Herzog, Heine, Geduld, Inc.
Howe Barnes Investments, Inc.
Sandler O'Neill & Partners
NatCity Investments, Inc.
RBC Capital Markets
Spear, Leeds, & Kellog
Stifel, Nicolaus & Company, Inc.

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FORM 10-K AND FINANCIAL INFORMATION

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FORM 10-K AND FINANCIAL INFORMATION

First Merchants Corporation, upon request and without charge, will furnish stockholders, security analysts and investors a copy of Form 10-K filed with the Securities and Exchange Commission.

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; that address is http://www.sec.gov

Please contact:
Mr. Mark Hardwick
Senior Vice President
and Chief Financial Officer

First Merchants Corporation
P. O. Box 792
Muncie, Indiana 47308-0792

765-751-1857
1-800-262-4261 Ext. 1857

EXHIBIT-21
SUBSIDIARIES OF THE REGISTRANT

EXHIBIT 21--SUBSIDIARIES OF THE REGISTRANT

Name	State of Incorporation
First Merchants Bank, National Association (also doing business as First Merchants Bank of Hamilton County)	U.S.
The Madison Community Bank	Indiana
First United Bank	Indiana
The Union County National Bank of Liberty	U.S.
The Randolph County Bank	Indiana
The First National Bank of Portland	U.S.
Decatur Bank & Trust Company	Indiana
Frances Slocum Bank & Trust Company	Indiana
Lafayette Bank and Trust Company	Indiana
Commerce National Bank	U.S.
First Merchants Capital Trust I	Delaware
First Merchants Insurance Services, Inc	Indiana
First Merchants Reinsurance Co. Ltd	Providencials Turkes and Caicos, Island
Indiana Title Insurance Company	Indiana
Indiana Title Insurance Company, LLC	Indiana
Wabash Valley Investments, Inc	Nevada
Wabash Valley, LLC	Nevada
Wabash Valley Holdings, Inc	Nevada
Merchants Trust Company, National Association	U.S.
CNBC Retirement Services, Inc	Ohio
CNBC Statutory Trust I	Connecticut

EXHIBIT-23

CONSENT OF INDEPENDENT ACCOUNTANTS

EXHIBIT 23 - CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference to the Registration Statement on Form S-8, File Numbers 333-50484, 333-80119 and 333-80117 of our report dated January 17 2003, on the consolidated financial statements of First Merchants Corporation which report is included in the Annual Report on Form 10-K of First Merchants Corporation.

BKD LLP

Indianapolis, Indiana
March 28, 2003

EXHIBIT-24
LIMITED POWER OF ATTORNEY

EXHIBIT 24--LIMITED POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned directors and officers of First Merchants Corporation, an Indiana corporation, hereby constitute and appoint Mark K. Hardwick, the true and lawful agent and attorney-in-fact of the undersigned with full power and authority in said agent and attorney-in-fact to sign for the undersigned and in their respective names as directors and officers of the Corporation the Form 10-K of the Corporation to be filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment to such Form 10-K, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

Dated: February 11, 2003

/s/ Michael L. Cox		/s/ Stefan S. Anderson	
Michael L. Cox	President and Chief Executive Officer (Principal Executive Officer)	Stefan S. Anderson	Director
/s/Mark K. Hardwick		/s/ Roger M. Arwood	
Mark K. Hardwick	Sr. Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	Roger M. Arwood	Director
		/s/ James F. Ault	
		James F. Ault	Director
		/s/ Dennis A. Bieberich	
		Dennis A. Bieberich	Director
		/s/ Richard A. Boehning	
		Richard A. Boehning	Director
		/s/ Blaine M. Brownell	
		Blaine M. Brownell	Director
		Frank A. Bracken	Director
		/s/ Thomas B. Clark	
		Thomas B. Clark	Director
		/s/ Michael L. Cox	
		Michael L. Cox	Director
		Barry J. Hudson	Director
		/s/ Robert T. Jeffares	
		Robert T. Jeffares	Director
		/s/ Norman M. Johnson	
		Norman M. Johnson	Director
		/s/ George A. Sissel	
		George A. Sissel	Director
		Robert M. Smitson	Director
		/s/ Dr. John E. Worthen	
		Dr. John E. Worthen	Director

EXHIBIT-99.1
ACCOUNTANTS' REPORT FOR FIRST MERCHANTS CORPORATION
EMPLOYEE STOCK PURCHASE PLAN

EXHIBIT 99.1--FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANTS' REPORT FOR FIRST MERCHANTS CORPORATION EMPLOYEE STOCK PURCHASE PLAN

The annual finanial statements and independent accountants' report thereon for First Merchants Corporation Employee Stock Purchase Plan for the year ending December 31, 2002, will be filed as an amendment to the 2002 Annual Report on Form 10-K.

EXHIBIT-99.2

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

EXHIBIT 99.2--CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of First Merchants Corporation (the "Corporation") on Form 10-K for the year ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Michael L. Cox, President & Chief Executive Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date 03/28/03 by /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

In connection with the annual report of First Merchants Corporation (the "Corporation") on Form 10-K for the year ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Mark K. Hardwick, Senior Vice President and Chief Financial Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date 03/28/03 by /s/ Mark K. Hardwick

Mark K. Hardwick
Senior Vice President and
Chief Financial Officer
(Principal Financial and Chief
Accounting Officer)