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, 1998 Commission file number 0-17071

FIRST MERCHANTS CORPORATION
(Exact name of registrant as specified in its charter)

Indiana	35-1544218
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 East Jackson Muncie, Indiana	47305-2814
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (317) 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]

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 $231,676,424 as of March 5, 1999.

As of March 5, 1999 there were outstanding 10,072,888 common shares, without par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Part of Form 10-K Into Which Incorporated
1998 Annual Report to Stockholders	Part II (Items 5, 6, 7, 7A, and 8)
Definitive Proxy Statement for Annual Meeting of Shareholders to be held April 14, 1999	Part III (Items 10 through 13)

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PART I

ITEM 1. BUSINESS.

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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.

After the holding company was formed in 1982, the Corporation's practice was to appoint each of the outside directors of First Merchants as a director of the Corporation. However, as the Corporation grew through acquisition of four other financial institutions, it became apparent that increased separation of the operation and direction of the Corporation and First Merchants would be desirable, and that this objective was hindered by the substantial overlap in the composition of the two Boards of Directors. Therefore, the Corporation's Board appointed an ad hoc Committee on Board Structure to review the structure and makeup of the two Boards. The Committee's report and recommendations, including a plan to restructure the respective Boards effective as of January 1, 1997, were unanimously adopted by the Boards of both the Corporation and First Merchants on December 10, 1996. As a result of the restructuring, six of the directors who were serving on both Boards became directors of First Merchants only, and five of the directors who were serving on both Boards became directors of the Corporation only. The size of the Corporation's Board was reduced from eighteen to twelve members, and the size of the First Merchants' Board was reduced from fifteen to ten members.

As of December 31, 1998, the Corporation had consolidated assets of $1.177 billion, consolidated deposits of $926.8 million and stockholders' equity of $131.5 million.

The Corporation is headquartered in Muncie, Indiana, and is presently engaged in conducting commercial banking business through the 27 offices of its five banking subsidiaries. As of December 31, 1998, the Corporation and its subsidiaries had 492 full-time equivalent employees.

Through its subsidiaries, the Corporation offers a broad range of financial services, including: accepting time and transaction deposits; making consumer, commercial, agri-business and real estate mortgage loans; issuing credit cards; renting safe deposit facilities; providing personal and corporate trust services; and providing other corporate services, letters of credit and repurchase agreements.

ACQUISITION POLICY AND PENDING TRANSACTIONS

The Corporation anticipates that it will continue its policy of geographic expansion through consideration of acquisitions of additional financial institutions. Management of the Corporation periodically engages in reviewing and analyzing potential acquisitions.

At the present time, management of the Corporation has signed definitive agreements with both Jay Financial Corporation and Anderson Community Bank regarding their affiliation with the Corporation.

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COMPETITION

The Corporation's banking subsidiaries are located in Delaware, Fayette, Hamilton, Henry, Madison, Wayne, Randolph, and Union counties in Indiana and Butler county 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.

SUPERVISION AND REGULATION

The Corporation is a bank holding company ("BHC") subject to regulation under the Bank Holding Company Act of 1956, as amended (the "Act"). The Act generally requires a BHC to obtain prior approval of the Federal Reserve Board (the "FRB") to acquire or hold more than a 5% voting interest in any bank. The Act restricts the non-banking activities of BHCs to those which are closely related to banking activities. As a result of the provisions in the Financial Institutional Reform, Recovery and Enforcement Act of 1989, BHCs may now own and operate savings and loan associations or savings banks which, in the past, was prohibited. First Merchants and Union County are national banks and are supervised, regulated and examined by the Comptroller of the Currency. Pendleton, First United, and Randolph County are state banks and are supervised, regulated and examined by the Indiana Department of Financial Institutions (the "DFI"). In addition, First Merchants, as a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve. In addition, Pendleton, First United, and Randolph County, which are not members of the Federal Reserve System, are supervised and regulated by the Federal Deposit Insurance Corporation ("FDIC"). The deposits of First Merchants, Union County, Pendleton, First United, and Randolph County (the "Banks") are insured by the FDIC. Each regulator has the authority to issue cease-and-desist orders if it determines their activities represent an unsafe and unsound practice or violation of law.

Under the Act and under regulations of the FRB, the Corporation and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with the extension of credit and are subject to limitations as to certain intercompany transactions.

Subject to certain limitations, an Indiana bank may establish branches de novo and may establish branches by acquisition in any location or locations within Indiana. Indiana law permits intrastate bank holding company acquisitions, subject to certain limitations. Effective July 1, 1992, Indiana bank holding companies were permitted to acquire banks, and banks and bank holding companies in Indiana were permitted to be acquired by bank holding companies, located in any state in the United States which permits reciprocal entry by Indiana bank holding companies. Prior to July 1, 1992, such interestate bank holding company acquisitions were permitted only on a regional, as opposed to national, basis. Neither the Corporation nor its subsidiaries presently contemplate engaging in any non-banking related business activities.

During 1991, Congress passed the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"). In addition to addressing the insurance fund's financial needs, FDICIA expanded the power of the federal banking regulators. FDICIA introduced a new system of classifying financial institutions with respect to their capitalization. Effective in 1993, FDICIA also requires certain financial institutions, such as First Merchants, to have annual audits and requires management to issue supplemental reports attesting to an institution's compliance with laws and regulations and to the adequacy of its internal controls and procedures.

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SUPERVISION AND REGULATION (continued)

The Riegle Community Development and Regulatory Improvement Act of 1994 ("Act") was signed into law in 1994. The Act contains seven titles pertaining to community development and home ownership protection, small business capital formation, paperwork reduction and regulatory improvement, money laundering and flood insurance. The Act grants the authority to several agencies to promulgate regulations under the Act. No regulations have yet been promulgated. The Corporation cannot predict with certainty the impact of the Act on the banking industry.

In September, 1994, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Interstate Act") was enacted into law. The Interstate Act authorized interstate acquisitions, mergers and bank branching and agency banking with affiliates in different states. The Interstate Act amends the Bank Holding Company Act to allow adequately capitalized and managed bank holding companies to acquire a bank located in another state beginning in September, 1995. The new act permits full interstate branching after June 1, 1997. After that date, BHCs may merge existing bank subsidiaries into one bank, with banks also permitted to merge unaffiliated banks across state lines. States may permit interstate branching earlier than June 1, 1997, where both states involved with a bank merger expressly permit it by statute. The Interstate Act permits states to enact a law expressly prohibiting interstate mergers. Such laws must apply equally to all out-of-state banks and be passed before June 1, 1997.

The monetary policies of regulatory authorities, including the Federal Reserve Board, have a significant effect on the operating results of banks and bank holding companies. The nature of future monetary policies and the effect of such policies on the future business and earnings of the Corporation and its subsidiary banks cannot be predicted.

The Corporation is under the jurisdiction of the Securities and Exchange Commission and state securities commission for matters relating to the offering and sale of its securities and is subject to the Securities and Exchange Commission's rules and regulations relating to periodic reporting, reporting to stockholders, proxy solicitation, and insider trading.

The Corporation's income is principally derived from dividends paid on the common stock of its subsidiaries. The payment of these dividends are subject to certain regulatory restrictions.

CAPITAL REQUIREMENTS

The Corporation and its subsidiary banks must meet certain minimum capital requirements mandated by the FRB, the FDIC and DFI. These regulatory agencies require BHCs and banks to maintain certain minimum ratios of primary capital to total assets and total capital to total assets. As of January 1, 1991, the FRB required bank holding companies to maintain a minimum Tier 1 leverage ratio to 3 per cent capital to total assets; however, for all but the most highly rated institutions which do not anticipate significant growth, the minimum Tier 1 ratio is 3 per cent plus an additional cushion of 100 to 200 basis points. As of December 31, 1998, the Corporation's leverage ratio of capital to total assets was 11.9 per cent.

The FRB and FDIC each have approved the imposition of "risk-adjusted" capital ratios on BHCs and financial institutions. The Corporation and its subsidiaries had capital to assets ratios and risk-adjusted capital ratios at December 31, 1998, in excess of the applicable regulatory minimum requirements.

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CAPITAL REQUIREMENTS (continued)

The following table summarizes the Corporation's risk-adjusted capital ratios under FRB guidelines at December 31, 1998:

	Corporation's Consolidated Ratio	Regulatory Minimum Requirement
Tier 1 Capital to Risk-Weighted Assets Ratio..................	16.0%	4.0%
Total Capital to Risk-Weighted Assets Ratio..................	16.9%	8.0%

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.

	1998			1997			1996		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
	(Dollars in Thousands on Fully Taxable Equivalent Basis)								
Assets:									
Federal funds sold	$ 15,172	$ 720	4.7%	$ 3,127	$ 172	5.5%	$ 9,359	$ 498	5.3%
Interest-bearing deposits	598	27	4.5	693	34	4.9	346	16	4.6
Federal Reserve and Federal Home Loan Bank stock	3,590	278	7.7	3,144	242	7.7	2,800	212	7.6
Securities:(1)									
Taxable	175,281	10,858	6.2	172,993	10,818	6.3	204,323	12,752	6.2
Tax-exempt	93,438	7,049	7.5	86,568	6,647	7.7	77,996	5,892	7.6
Total Securities	268,719	17,907	6.7	259,561	17,465	6.7	282,319	18,644	6.6
Mortgage loans held for sale	773	98	12.7	406	47	11.6	262	21	8.0
Loans:(2)									
Commercial	296,329	26,737	9.0	272,483	25,125	9.2	230,848	21,232	9.2
Bankers' acceptance and commercial paper purchased	1,366	67	4.9	1,193	68	5.7	20	1	5.5
Real estate mortgage	274,573	22,786	8.3	258,499	21,430	8.3	233,830	19,543	8.4
Installment	145,379	13,374	9.2	141,290	13,103	9.3	119,379	11,300	9.5
Tax-exempt	3,511	309	8.8	2,021	178	8.8	1,566	140	8.9
Total loans	721,158	63,273	8.8	675,486	59,904	8.9	585,643	52,216	8.9
Total earning assets	1,010,010	82,303	8.1	942,417	77,864	8.3	880,729	71,607	8.1
Net unrealized gain on securities available for sale	2,897			1,273			961		
Allowance for loan losses	(7,020)			(6,761)			(6,672)		
Cash and due from banks	29,249			30,647			28,341		
Premises and equipment	16,608			14,950			14,879		
Other assets	12,970			10,812			13,906		
Total assets	$1,064,714			$993,338			$932,144		
Liabilities:									
Interest-bearing deposits:									
NOW accounts	$ 116,026	$ 2,329	2.0	$104,620	$ 2,450	2.3	$109,792	$ 2,503	2.3
Money market deposit accounts	140,015	5,810	4.1	105,628	4,188	4.0	100,897	3,701	3.7
Savings deposits	68,016	1,653	2.4	69,633	1,740	2.5	70,875	1,898	2.7
Certificates and other time deposits	434,897	23,960	5.5	425,478	23,542	5.5	381,378	21,037	5.5
Total interest-bearing deposits	758,954	33,752	4.4	705,359	31,920	4.5	662,942	29,139	4.4
Borrowings	77,508	4,298	5.5	68,640	3,805	5.5	60,960	3,210	5.3
Total interest-bearing liabilities	836,462	38,050	4.6	773,999	35,725	4.6	723,902	32,349	4.5
Noninterest-bearing deposits	97,771			94,759			90,719		
Other liabilities	3,769			7,566			9,429		
Total liabilities	938,002			876,324			824,050		
Stockholders' equity	126,712			117,014			108,094		
Total liabilities and stockholders'equity	$1,064,714	38,050	3.8(3)	$993,338	35,725	3.8(3)	$932,144	32,349	3.6(3)
Net interest income		$44,254	4.3		$ 42,139	4.5		$ 39,258	4.5

(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

	1998	1997	1996
Adjustment to convert tax exempt investment securities to fully taxable equivalent basis, using marginal rate of 35% for 1996, 1997, and 1998	$ 2,575	$ 2,389	$ 2,111

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.

	1998 Compared to 1997 Increase (Decrease) Due To			1997 Compared to 1996 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in Thousands on Fully Taxable Equivalent Basis)					
Interest income:						
Federal funds sold	$ 575	$ (27)	$ 548	$(343)	$ 17	$(326)
Interest-bearing deposits	(4)	(3)	(7)	17	1	18
Federal Reserve and Federal Home Loan Bank stock	35	1	36	26	4	30
Securities	612	(170)	442	(1,461)	282	(1,179)
Mortgage loans held for sale	46	5	51	14	12	26
Loans	4,013	(644)	3,369	7,966	(278)	7,688
Totals	5,277	(838)	4,439	6,219	38	6,257
Interest expense:						
NOW accounts	251	(372)	(121)	(126)	73	(53)
Money market deposit accounts	1,419	203	1,622	179	308	487
Savings deposits	(40)	(47)	(87)	(33)	(125)	(158)
Certificates and other time deposits	519	(101)	418	2,440	65	2,505
Borrowings	492	1	493	382	44	426
Totals	2,641	(316)	2,325	2,839	537	3,376
Change in net interest income (fully taxable equivalent basis)	$2,636	$ (522)	$2,114	$ 3,380	$ (449)	$ 2,881
Tax equivalent adjustment using marginal rate of 35% for 1996, 1997, and 1998			(186)			(278)
Change in net interest income			$1,928			$2,603

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, 1998:				
U.S. Treasury	$ 20,269	$ 95	$	$ 20,364
Federal agencies	52,598	577	19	53,156
State and municipal	86,537	2,620	4	89,153
Mortgage-backed securities	126,329	424	183	126,570
Other asset-backed securities	265	1	11	255
Corporate obligations	18,624	143	8	18,759
Marketable equity securities	250			250
Total available for sale	304,872	3,860	225	308,507
Held to maturity at December 31, 1998:				
U.S. Treasury	249	4		253
Federal agencies	500	1		501
State and municipal	17,480	348	1	17,827
Mortgage-backed securities	864	3		867
Other asset-backed securities	1,761	2	27	1,736
Total held to maturity	20,854	358	28	21,184
Total investment securities	$ 325,726	$4,218	$ 253	$ 329,691
Available for sale at December 31, 1997:				
U.S. Treasury	$ 19,207	$ 104	$ 11	$ 19,300
Federal agencies	66,783	405	48	67,140
State and municipal	67,842	1,815	28	69,629
Mortgage-backed securities	36,682	362	86	36,958
Other asset-backed securities	487	2	54	435
Corporate obligations	18,219	139	30	18,328
Marketable equity securities	250			250
Total available for sale	209,470	2,827	257	212,040
Held to maturity at December 31, 1997:				
U.S. Treasury	249		2	247
Federal agencies	3,412	6	1	3,417
State and municipal	26,206	252	2	26,456
Mortgage-backed securities	1,255	4	1	1,258
Other asset-backed securities	4,210	7	166	4,051
Total held to maturity	35,332	269	172	35,429
Total investment securities	$ 244,802	$3,096	$ 429	$ 247,469

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
Available for sale at December 31, 1996:				
U.S. Treasury	$ 21,570	$ 92	$ 46	$ 21,616
Federal agencies	79,130	540	180	79,490
State and municipal	52,026	1,173	106	53,093
Mortgage-backed securities	35,946	297	145	36,098
Other asset-backed securities	6,204		130	6,074
Corporate obligations	31,470	156	128	31,498
Marketable equity securities	510			510
Total available for sale	226,856	2,258	735	228,379
Held to maturity at December 31, 1996:				
U.S. Treasury	249		7	242
Federal agencies	5,729	23	5	5,747
State and municipal	36,405	381	21	36,765
Mortgage-backed securities	1,053			1,053
Other asset-backed securities	3,791	17	121	3,687
Total held to maturity	47,227	421	154	47,494
Total investment securities	$ 274,083	$2,679	$ 889	$ 275,873

	Cost		
	1998	1997	1996
Federal Reserve and Federal Home Loan Bank stock at December 31:			
Federal Reserve Bank stock	$ 397	$ 397	$ 397
Federal Home Loan Bank stock	3,326	2,976	2,693
Total	$3,723	$3,373	$3,090

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, 1998 were:

Securities available for sale December 31, 1998:

	Within 1 Year		1-5 Years		5-10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury	$ 19,265	5.39%	$ 1,004	6.53%		
Federal Agencies	13,313	6.35	38,272	5.99	$ 1,013	5.53%
State and Municipal	7,547	5.65	47,767	4.53	25,817	5.14
Corporate Obligations	12,454	5.50	6,170	6.68		
Total	$ 52,579	5.70%	$93,213	5.29%	$ 26,830	5.15%

STATISTICAL DATA (continued)

	Marketable Equity, Mortgage and Other Due After Ten Years		Asset-Backed Securities		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury..................					$ 20,269	5.44%
Federal Agencies...............					52,598	6.07
State and Municipal............	$ 5,406	5.69%			86,537	4.88
Corporate Obligations..........					18,624	5.89
Marketable Equity Security.....			$ 250	7.90%	250	7.90
Mortgage-backed securities.....			126,329	6.23	126,329	6.23
Other asset-backed securities..			265	6.93	265	6.93
Total.......................	$ 5,406	5.69%	$126,844	6.23%	$304,872	5.75%

Securities held to maturity at December 31, 1998:

	Within 1 Year		1-5 Years		5-10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury..................			$ 249	5.36%		
Federal Agencies...............	$ 500	6.17%				
State and Municipal............	4,870	5.15	10,492	4.74	$ 1,638	5.10%
Total.......................	$ 5,370	5.24%	$10,741	4.75%	$ 1,638	5.10%

	Due After Ten Years		Mortgage and other asset-backed		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury................					$ 249	5.36%
Federal Agencies.............					500	6.17
State and Municipal..........	$ 480	5.88%			17,480	4.92
Mortgage-backed securities...			$ 864	6.57%	864	6.57
Other asset-backed securities			1,761	7.38	1,761	7.38
Total....................	$ 480	5.88%	$ 2,625	7.11%	$20,854	5.23

*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, 1998:

	Amount	Yield
Federal Reserve Bank stock........................	$ 397	6.00%
Federal Home Loan Bank stock......................	3,326	8.00
Total..	$3,723	7.79%

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STATISTICAL DATA (continued)

LOAN PORTFOLIO

TYPES OF LOANS

The loan portfolio at the dates indicated is presented below:

	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Loans at December 31:					
Commercial and industrial loans..................	$ 169,685	$ 148,281	$ 132,134	$ 98,880	$ 89,696
Bankers acceptances and loans to financial institutions.........	900	705	625	2,925	
Agricultural production financing and other loans to farmers........................	16,661	16,764	18,906	17,203	17,255
Real estate loans:					
Construction......................	26,426	21,389	13,167	9,913	8,126
Commercial and farmland...........	95,172	97,503	97,596	104,731	95,092
Residential.......................	302,680	287,072	253,530	215,738	217,148
Individuals' loans for household and other personal expenditures............	128,253	125,706	113,507	102,313	99,812
Tax-exempt loans....................	2,115	2,598	1,643	1,204	1,514
Other loans.........................	1,217	3,782	1,672	949	1,608
	743,109	703,800	632,780	553,856	530,251
Unearned interest on loans..........	(137)	(487)	(1,364)	(1,518)	(1,610)
Total loans...................	$ 742,972	$ 703,313	$ 631,416	$ 552,338	$ 528,641

Residential Real Estate Loans Held for Sale at December 31, 1998, 1997, 1996, 1995, and 1994 were $775,800, $471,400, $284,020, 735,522, and $0.

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, 1998. 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............	$ 66,367	$ 53,164	$ 50,154	$169,685
Agricultural production financing and other loans to farmers...............	12,022	3,333	1,306	16,661
Real estate - Construction.................	13,431	5,677	7,318	26,426
Tax-exempt loans...........................	401	367	1,347	2,115
Other loans................................	978	143	96	1,217
Total	$ 93,199	$ 62,684	$ 60,221	$216,104

	Maturing 1 - 5 Years	Maturing Over 5 Years
	(Dollars in Thousands)	
Loans maturing after one year with:		
Fixed rates................	$16,407	$26,627
Variable rate..............	46,277	33,594
Total....................	$62,684	$60,221

RISK ELEMENTS

	December 31 1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Nonaccruing loans....................	$ 735	$ 1,410	$ 2,777	$ 576	$ 398
Loans contractually past due 90 days or more other than nonaccruing.........................	2,275	1,972	1,699	1,119	1,322
Restructured loans...................	926	282	1,540	1,075	1,242

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 $94,000 for the year ended December 31, 1998, was recognized on the nonaccruing and restructured loans listed in the table above, whereas interest income of $163,000 would have been recognized under their original loan terms.

POTENTIAL PROBLEM LOANS:

Management has identified certain other loans totaling $7,039,000 as of December 31, 1998, not included in the risk elements table, or impaired loan table, about which there are doubts as to the borrowers' ability to comply with present repayment terms.

The Banks generate commercial, mortgage and consumer loans from customers located primarily in 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 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.

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STATISTICAL DATA (continued)

SUMMARY OF LOAN LOSS EXPERIENCE

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

	1998	1997	1996	1995	1994
		(Dollars in Thousands)			
Allowance for loan losses:					
Balance at January 1	$ 6,778	$ 6,622	$ 6,696	$ 6,603	$ 6,467
Chargeoffs:					
Commercial	694	443	767	794	973
Real estate mortgage	44	31	14	1	53
Installment	1,143	1,135	855	759	462
Total chargeoffs	1,881	1,609	1,636	1,554	1,488
Recoveries:					
Commercial	217	264	106	127	269
Real estate mortgage	20	1	7	4	30
Installment	294	203	196	128	123
Total recoveries	531	468	309	259	422
Net chargeoffs	1,350	1,141	1,327	1,295	1,066
Provisions for loan losses	1,984	1,297	1,253	1,388	1,202
Balance at December 31	$ 7,412	$ 6,778	$ 6,622	$ 6,696	$ 6,603
Ratio of net chargeoffs during the period to average loans outstanding during the period	.18%	.17%	.23%	.24%	.21%
Peer Group	N/A	.29%	.26%	.26%	.25%

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:

	1998		1997	
	Amount	Per Cent	Amount	Per Cent
	(Dollars in Thousands)			
Balance at December 31:				
Commercial, financial and agricultural	$ 2,375	25.2%	$ 2,594	23.6%
Real estate - construction	3	3.6	3	3.0
Real estate - mortgage	1,057	53.5	1,061	54.7
Installment	2,824	17.4	1,702	18.3
Tax-exempt loans	4	.3	4	.4
Unallocated	1,149	N/A	1,414	N/A
Totals	$ 7,412	100.0%	$ 6,778	100.0%

	1996		1995	
	Amount	Per Cent	Amount	Per Cent
	(Dollars in Thousands)			
Balance at December 31:				
Commercial, financial and agricultural	$ 2,924	24.2%	$ 3,105	21.8%
Real estate - construction	3	2.1	1	1.8
Real estate - mortgage	1,041	55.6	1,121	58.0
Installment	1,576	17.8	1,506	18.2
Tax-exempt loans	16	.3	4	.2
Unallocated	1,062	N/A	959	N/A
Totals	$ 6,622	100.0%	$ 6,696	100.0%

	1994	
	Amount	Per Cent
	(Dollars in Thousands)	
Balance at December 31:		
Commercial, financial and agricultural	$ 3,080	20.5%
Real estate - construction	4	1.5
Real estate - mortgage	1,048	59.1
Installment	1,550	18.6
Tax-exempt loans	4	.3
Unallocated	917	N/A
Totals	$ 6,603	100.0%

STATISTICAL DATA (continued)

LOAN LOSS CHARGEOFF PROCEDURES

The Banks have weekly meetings at which loan delinquencies, maturities and problems are reviewed. The Board of Directors receive and review reports on loans monthly.

The Executive Committee of First Merchants' Board meets bimonthly to approve or disapprove all new loans in excess of $1,000,000 and the Board reviews all commercial loans in excess of $50,000 which were made or renewed during the preceding month. Pendleton's and First United's loan committees, consisting of all loan officers and the president, meet as required to approve or disapprove any loan which is in excess of an individual loan officer's lending limit.

The Loan/Discount Committee of Union County's Board meets monthly to approve or disapprove all loans to borrowers with aggregate loans in excess of $300,000. The Loan Committee of Randolph County's Board meets weekly to approve or disapprove any loan which is in excess of an individual loan officer's lending limit.

All chargeoffs are approved by the 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:

(Dollars in Thousands)	1998	1997	1996
For the year ending December 31:			
Impaired loans with an allowance	$ 1,946	$ 1,476	$ 3,124
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	6,882	1,075	868
Total impaired loans	$ 8,828	$ 2,551	$ 3,992
Allowance for impaired loans (included in the Corporation's allowance for loan losses)	$ 712	$ 407	$ 1,092
Average balance of impaired loans	8,318	3,414	5,213
Interest income recognized on impaired loans	873	180	311
Cash basis interest included above	745	162	291

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STATISTICAL DATA (continued)

DEPOSITS

The following table shows the average amount of deposits and average rate of interest paid thereon for the years indicated.

	1998 Amount	1998 Rate	1997 Amount	1997 Rate	1996 Amount	1996 Rate
	(Dollars in Thousands)					
Balance at December 31:						
Noninterest bearing deposits............	$ 97,771		$ 94,759		$ 90,719	
NOW accounts............................	116,026	2.0%	104,620	2.3%	109,792	2.3%
Money market deposit accounts...........	140,015	4.1	105,628	4.0	100,897	3.7
Savings deposits........................	68,016	2.4	69,633	2.5	70,875	2.7
Certificates of deposit and other time deposits....................	434,897	5.5	425,478	5.5	381,378	5.5
Total deposits.......................	$856,725	3.9	$800,118	4.0	$753,661	3.9

As of December 31, 1998, 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..................	$ 35,033	$14,426	$22,774	$19,346	$91,579
Per cent...............................	38%	16%	25%	21%	100%

RETURN ON EQUITY AND ASSETS

	1998	1997	1996
Return on assets (net income divided by average total assets).........................	1.45%	1.45%	1.41%
Return on equity (net income divided by average equity).............................	12.15	12.28	12.16
Dividend payout ratio (dividends per share divided by net income per share).......	50.47	47.93	40.85
Equity to assets ratio (average equity divided by average total assets).............	11.90	11.78	11.60

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STATISTICAL DATA (continued)

SHORT-TERM BORROWINGS

	1998	1997	1996
	(Dollars in Thousands)		
Balance at December 31:			
Securities sold under repurchase agreements(short-term portion).........	$ 20,836	$ 15,398	$ 20,054
Federal funds purchased..................	17,070	4,070	20,725
U.S. Treasury demand notes...............	2,226	7,361	4,258
Total short-term borrowings.........	$ 40,132	$ 26,829	$ 45,037

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:

	1998	1997	1996
	(Dollars in Thousands)		
Weighted average interest rate on outstanding balance at December 31:			
Securities sold under repurchase agreements (short-term portion)....	5.07%	5.13%	4.92%
Total short-term borrowings	5.27	5.38	5.78
Weighted average interest rate during the year:			
Securities sold under repurchase agreements (short-term portion)....	5.10	4.99	5.07
Total short-term borrowings	4.99	5.36	5.19
Highest amount outstanding at any month end during the year:			
Securities sold under repurchase agreements (short-term portion)....	$27,002	$49,750	$52,221
Total short-term borrowings	61,355	84,860	83,678
Average amount outstanding during the year:			
Securities sold under repurchase agreements (short-term portion)....	24,526	31,327	42,140
Total short-term borrowings	37,854	53,185	51,768

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. This building and eight branch buildings are owned by First Merchants; four remaining branches of First Merchants are located in leased premises. Twelve automated cash dispensers are located in leased premises. All of the Corporation's and First Merchants' facilities are located in Delaware and Madison Counties of Indiana.

The principal offices of Pendleton are located at 100 West State Street, Pendleton, Indiana. Pendleton also operates three branches. All of Pendleton's properties are owned by Pendleton and are located in Madison County, Indiana. Two automated dispensers are located in leased premises.

The principal offices of First United are located at 790 West Mill Street, Middletown, Indiana. First United also operates two branches. All of First United's properties are owned by First United and are located in Henry County, Indiana.

The principal offices of Union County are located at 107 West Union Street, Liberty, Indiana. This building and two branches are owned by Union National; one branch is located in leased premises. Three automated cash dispensers are located in leased premises. All of Union National's facilities are located in Union, Fayette and Wayne Counties of Indiana.

The principal office of Randolph County is located at 122 West Washington Street, Winchester, Indiana. This building is owned by Randolph County and is located in Randolph County, Indiana.

None of the properties owned by the banks are subject to any major encumbrances. The net investment of the Corporation and subsidiaries in real estate and equipment at December 31, 1998 was $16,954,400.

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.

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 1998 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 are listed below.

Name and Age	Offices with the Corporation And Subsidiary Banks	Principal Occupation During Past Five Years
Stefan S. Anderson 64	Chairman of the Board, Chief Executive Officer, Corporation; Chairman of the Board and Chief Executive Officer, First Merchants Bank, N.A.	Chairman of the Board of the Corporation and First Merchants since 1987; Chief Executive Officer of the Corporation since 1982; President of the Corporation from 1982 to August 1998, and Chief Executive Officer of First Merchants Bank since 1979
Michael L. Cox 54	President, Chief Operating Officer and Director, Corporation; President, Chief Operating Officer and Director, First Merchants Bank, N.A.	President and Chief Operating Officer, Corporation since August 1998 and May, 1994 respectively; President and Chief Operating Officer, First Merchants since April, 1996; Director, Corporation and First Merchants since December, 1984; President, Information Services Group, Ontario Corporation prior to May 1994
Larry R. Helms 58	Senior Vice President, General Counsel and Secretary, Corporation; Senior Vice President, First Merchants Bank, N.A.; Director of First United Bank; Director of Pendleton Banking Company	Senior Vice President, Corporation since 1982; General Counsel, Corporation since 1990 and Secretary since January 1, 1997; Senior Vice President, First Merchants since January 1979; Director of First United Bank since 1991 and Pendleton Banking Company since 1992
Ted J. Montgomery 59	Senior Vice President and Director, Corporation; President, Chief Executive Officer and Director, The Union County National Bank of Liberty	Senior Vice President and Director, Corporation since August 1996; President, Union County National Bank since 1983 and Director since 1981
James L. Thrash 49	Senior Vice President and Chief Financial Officer, Corporation; Senior Vice President, First Merchants Bank, N.A.	Senior Vice President and Chief Financial Officer of the Corporation since 1990; Senior Vice President, First Merchants since 1990

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 page 50 of the Corporation's 1998 Annual Report to Stockholders under the caption "Stockholder Information," Exhibit 13.

ITEM 6. SELECTED FINANCIAL DATA.

The information required under this item is incorporated by reference to page 18 of the Corporation's 1998 Annual Report to Stockholders - Financial Review under the caption "Five-Year Summary of Selected Financial Data," Exhibit 13.

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

The information required under this item is incorporated by reference to page 19 through 27 of the Corporation's 1998 Annual Report to Stockholders - Financial Review under the caption "Management's Discussion and Analysis," Exhibit 13.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required under this item is incorporated by reference to page 21 and 22 of the corporation's 1998 Annual Report to Stockholders - Financial Review under the caption "Management's Discussion and Analysis," Exhibit 13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and supplementary data required under this item are incorporated herein by reference to page 17 and pages 28 through 47 of the Corporation's 1998 Annual Report to Stockholders - Financial Review, Exhibit 13.

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, 1998, 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 required under this item relating to directors is incorporated by reference to the Corporation's 1999 Proxy Statement furnished to its stockholders in connection with an annual meeting to be held April 14, 1999 (the "1998 Proxy Statement"), under the caption "Election of Directors," which Proxy Statement has been filed with the Commission. 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.

ITEM 11. EXECUTIVE COMPENSATION.

The information required under this item is incorporated by reference to the Corporation's 1999 Proxy Statement, under the captions, "Compensation of Directors" and "Compensation of Executive Officers," which Proxy Statement has been filed with the Commission.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required under this item is incorporated by reference to the Corporation's 1999 Proxy Statement, under the caption, "Security Ownership of Certain Beneficial Owners and Management," which Proxy Statement has been filed with the Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required under this item is incorporated by reference to the Corporation's 1999 Proxy Statement, under the caption "Interest of Management in Certain Transactions," which Proxy Statement has been filed with the Commission.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

	Exhibit 13 Page Number
(a)1. Financial Statements:	
Independent auditor's report	17
Consolidated balance sheet at December 31, 1998 and 1997	28
Consolidated statement of income, years ended December 31, 1998, 1997 and 1996	29
Consolidated statement of comprehensive income, Years ended December 31, 1998, 1997, and 1996	30
Consolidated statement of changes in stockholders' equity, years ended December 31, 1998, 1997 and 1996	30
Consolidated statement of cash flows, years ended December 31, 1998, 1997 and 1996	31
Notes to consolidated financial statements	32-47

(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 Exhibit:
3.1	First Merchants Corporation Articles of Incorporation and the Articles and amendment thereto is incorporated by reference to registrant's Form 10-Q for quarter ended June 30, 1997.
3.2	First Merchants Corporation Bylaws and amendments thereto (same as above).
10.1	First Merchants Corporation and First Merchants Bank, National Association Management Incentive Plan is incorporated by reference to registrant's Form 10-K for year ended December 31, 1996.
10.2	First Merchants Bank, National Association Unfunded Deferred Compensation Plan, as amended is incorporated by reference to registrant's Form 10-K for year ended December 31, 1996.
10.3	First Merchants Corporation 1989 Stock Option Plan is incorporated by reference to Registrant's Registration Statement on Form S-8 (SEC File No. 33-28901) effective on May 24, 1989.
10.4	First Merchants Corporation 1994 Stock Option Plan is incorporated by reference to Registrant's Form 10-K for year ended December 31, 1993.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (continued)

10.5	First Merchants Corporation Change of Control Agreements are incorporated by reference to registrant's Form 10-K for year ended December 31, 1996.
10.6	First Merchants Corporation Unfunded Deferred Compensation Plan is incorporated by reference to registrant's Form 10-K for year ended December 31, 1996.
10.7	First Merchants Corporation Supplemental Executive Retirement Plan and amendments thereto is incorporated by reference to registrant's Form 10-K for year ended December 31, 1997.
13	1998 Annual Report to Stockholders (except for the Pages and information thereof expressly incorporated by reference in this Form 10-K, the Annual Report to Stockholders is provided solely for the information of the Securities and Exchange Commission and is not deemed "filed" as part of this Form 10-K)
21	Subsidiaries of Registrant
23	Consent of Independent Auditors
27	Financial Data Schedule, year ended December 31, 1998
99.1	Financial statements and independent auditor's report for First Merchants Corporation Employee Stock Purchase Plan

(b) Reports on Form 8-K:

None

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 31st day of March, 1999.

FIRST MERCHANTS CORPORATION

By /s/ Stefan S. Anderson

Stefan S. Anderson, Chairman

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 and on the dates indicated.

Signature	Capacity	Date
/s/ Stefan S. Anderson Stefan S. Anderson	Director, Principal Executive Officer	March 31, 1999
/s/ James L. Thrash James L. Thrash	Principal Financial and Principal Accounting Officer	March 31, 1999
/s/ Michael L. Cox Michael L. Cox	Director	March 31, 1999
/s/ Frank A. Bracken Frank A. Bracken	*Director	March 31, 1999
/s/ Thomas B. Clark Thomas B. Clark	*Director	March 31, 1999
/s/ David A. Galliher David A. Galliher	*Director	March 31, 1999
/s/ Norman M. Johnson Norman M. Johnson	*Director	March 31, 1999
/s/ Ted J. Montgomery Ted J. Montgomery	*Director	March 31, 1999
/s/ George A. Sissel George A. Sissel	*Director	March 31, 1999

Signature	Capacity	Date
/s/ Robert M. Smitson Robert M. Smitson	*Director	March 31, 1999
/s/ Michael D. Wickersham Michael D. Wickersham	*Director	March 31, 1999
/s/ John E. Worthen John E. Worthen	*Director	March 31, 1999

* By James L. Thrash as Attorney-in-Fact pursuant to a limited Power of Attorney executed by the directors listed above, which Power of Attorney has been filed with the Securities and Exchange Commission.

By /s/ James L. Thrash

James L. Thrash
As Attorney-in-Fact
March 31, 1999

INDEX TO EXHIBITS

(a)3. Exhibits:

Exhibit No:	Description of Exhibit:
13	1998 Annual Report to Stockholders (Except for the Pages and information thereof expressly incorporated by reference in this Form 10-K, the Annual Report to Stockholders is provided solely for the information of the Securities and Exchange Commission and is not deemed "filed" as part of this Form 10-K.)
21	Subsidiaries of Registrant
23	Consent of Independent Auditors
24	Limited Power of Attorney
27	Financial Data Schedule, year ended December 31, 1998
99.1	Financial statements and independent auditor's report for First Merchants Corporation Employee Stock Purchase Plan

Financial
REVIEW

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated balance sheet of First Merchants Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998 (pages 28-47). 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 generally accepted auditing standards. 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, the consolidated financial statements described above present fairly, in all material respects, the consolidated financial position of First Merchants Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

OLIVE llp

Indianapolis, Indiana
January 15, 1999

FIVE-YEAR SUMMARY of SELECTED FINANCIAL DATA
(In Thousands, Except Share Data)

	1998	1997	1996	1995	1994
OPERATIONS					
Net Interest Income					
Fully Taxable Equivalent Basis	$ 44,253	$ 42,139	$ 39,258	$ 37,049	$ 35,909
Less Tax Equivalent Adjustment	2,575	2,389	2,111	1,952	1,971
Net Interest Income	41,678	39,750	37,147	35,097	33,938
Provision for Loan Losses	1,984	1,297	1,253	1,388	1,202
Net Interest Income					
After Provision for Loan Losses	39,694	38,453	35,894	33,709	32,736
Total Other Income	11,725	9,229	8,342	7,592	6,919
Total Other Expenses	27,895	25,748	24,135	22,992	22,632
Income Before Income Tax Expense	23,524	21,934	20,101	18,309	17,023
Income Tax Expense	8,125	7,561	6,959	6,261	5,660
Net Income	$ 15,399	$ 14,373	$ 13,142	$ 12,048	$ 11,363
PER SHARE DATA (1)					
Basic Net Income	$ 1.53	$ 1.44	$ 1.33	$ 1.23	$ 1.15
Diluted Net Income	1.51	1.43	1.32	1.21	1.15
Cash Dividends Paid (2)	.77	.69	.59	.51	.47
December 31 Book Value	13.04	12.20	11.38	10.66	9.39
December 31 Market Value (Bid Price)	26.00	24.33	16.83	17.17	13.89
AVERAGE BALANCES					
Total Assets	$1,064,714	$ 993,338	$ 932,144	$ 890,995	$ 853,257
Total Loans	721,931	675,892	585,905	544,457	513,784
Total Deposits	856,725	800,118	753,661	728,826	698,644
Securities Sold Under Repurchase Agreements (long-term portion)	16,182				
Total Federal Home Loan Bank Advances	26,942	15,455	9,192	9,000	7,692
Total Stockholders' Equity	126,712	117,014	108,094	99,033	91,466
YEAR-END BALANCES					
Total Assets	$1,177,172	$1,020,136	$ 967,993	$ 942,156	$ 868,153
Total Loans	743,748	703,784	631,700	553,074	528,641
Total Deposits	926,844	843,812	794,451	783,936	720,009
Securities Sold Under Repurchase Agreements (long-term portion)	28,000				
Total Federal Home Loan Bank Advances	43,268	20,700	9,150	9,000	8,000
Total Stockholders' Equity	131,497	121,969	112,687	104,967	92,754
FINANCIAL RATIOS					
Return on Average Assets	1.45%	1.45%	1.41%	1.35%	1.33%
Return on Average Stockholders' Equity	12.15	12.28	12.16	12.17	12.42
Average Earning Assets to Total Assets	95.13	94.77	94.48	94.86	94.46
Allowance for Loan Losses as % of Total Loans	.99	.96	1.05	1.21	1.25
Dividend Payout Ratio	50.47	47.93	40.85	39.49	39.44
Average Stockholders' Equity to Average Assets	11.90	11.78	11.60	11.11	10.72
Tax Equivalent Yield on Earning Assets (3)	8.13	8.27	8.13	8.09	7.41
Cost of Supporting Liabilities	3.76	3.79	3.67	3.71	2.95
Net Interest Margin on Earning Assets	4.37	4.48	4.46	4.38	4.46

(1) Restated for 3-for-2 stock splits distributed October, 1995 and October, 1998.

(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.

Management's
Discussion &
ANALYSIS

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

o Return on Average Assets
(percent)

[THE FOLLOWING TABLE WAS REPRESENTED BY A BAR CHART IN THE PRINTED MATERIAL.]

1996	1.41%
1997	1.45%
1998	1.45%

o Return on Average Equity
(percent)

[THE FOLLOWING TABLE WAS REPRESENTED BY A BAR CHART IN THE PRINTED MATERIAL.]

1996	12.16%
1997	12.28%
1998	12.15%

RESULTS of OPERATIONS

Net income amounted to $15,399,000 or $1.53 per share, a 6.2 percent increase over 1997 at $1.44 per share. Diluted net income per share amounted to $1.51, a 5.6 percent increase over the 1997 figure of $1.43.

Return on assets was 1.45 percent in 1998 and 1997, up from 1.41 percent in 1996.

Return on equity was 12.15 percent in 1998, 12.28 percent in 1997 and 12.16 percent in 1996.

In 1998, First Merchants Corporation ("Corporation") recorded the twenty-third consecutive year of improvement in net income on both an aggregate and per share basis.

CAPITAL

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

The Corporation's Tier I capital to average assets ratio was 11.9 percent at year-end 1998, equaling 11.9 percent at December 31, 1997. At December 31, 1998, the Corporation had a Tier I risk-based capital ratio of 16.0 percent, total risk-based capital ratio of 16.9 percent, and a leverage ratio of 11.9 percent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 percent and a total risk-based capital ratio of 8.0 percent.

The Corporation has an employee stock purchase plan and an employee stock option plan. Activity under these plans is described in Note 15 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

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

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

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

continued

The following table summarizes the risk elements for the Corporation.

	December 31, 1998	1997
	(Dollars in Thousands)	
Non-accrual loans	$ 735	$1,410
Loans contractually past due 90 days or more other than non-accruing	2,275	1,972
Restructured loans	926	282
Total	$3,936	$3,664

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

ASSET QUALITY/PROVISION for LOAN LOSSES continued

At December 31, 1998, non-performing loans totaled $3,936,000, an increase of $272,000, and one non-accrual loan totaling $367,000 was restructured. At December 31, 1998, impaired loans totaled $8,828,000, an increase of $6,277,000, due to the addition of two loans totaling $5,402,000. As of December 31, 1998, the two businesses were experiencing negative cash flows. However, both loans are current, and the Corporation believes that the underlying collateral does not warrant a specific reserve.

The Corporation adopted Statement of Financial Accounting Standards ("SFAS") No. 114 and No. 118, Accounting by Creditors for Impairment of a Loan and Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures, on January 1, 1995. Impaired loans included in the table at left totaled $2,222,000 at December 31, 1998. An allowance for losses at December 31, 1998, was not deemed necessary for impaired loans totaling $6,882,000, but an allowance of $712,000 was recorded for the remaining balance of impaired loans of $1,946,000. The average balance of impaired loans for 1998 was $8,318,000.

At December 31, 1998, the allowance for loan losses was $7,412,000, up $634,000 from year end 1997. As a percent of loans, the allowance was .99 percent, up from .96 percent at year-end 1997.

The provision for loan losses in 1998 was $1,984,000 compared to $1,297,000 in 1997.

o Net Loan Losses
(as a percent of average loans)

[THE FOLLOWING TABLE WAS REPRESENTED BY A BAR CHART IN THE PRINTED MATERIAL.]

	First Merchants Corporation	Peer Group
1996	.23	.26
1997	.17	.29
1998	.18	NA

The table below presents loan loss experience for the years indicated and compares the Corporation's loss experience to that of its peer group.

(Dollars in Thousands)	1998	1997	1996
Allowance for loan losses:			
Balance at January 1	$6,778	$6,622	$6,696
Chargeoffs	1,881	1,609	1,636
Recoveries	531	468	309
Net chargeoffs	1,350	1,141	1,327
Provision for loan losses	1,984	1,297	1,253
Balance at December 31	$7,412	$6,778	$6,622
Ratio of net chargeoffs during the period to average loans outstanding during the period	.18%	.17%	.23%
Peer Group	NA	.29%	.26%

LIQUIDITY, INTEREST SENSITIVITY and DISCLOSURES ABOUT MARKET RISK

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

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

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

Asset/Liability Management has been an important factor in the Corporation's ability to record consistent earnings growth through periods of interest rate volatility.

INTEREST RATE SENSITIVITY ANALYSIS
(Dollars in Thousands)

At December 31, 1998	1-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
Rate-Sensitive Assets:					
Federal funds sold and interest-bearing deposits	$ 38,170				$ 38,170
Investment securities	67,950	$ 44,812	$ 154,855	$ 61,744	329,361
Loans	319,806	75,404	249,283	99,255	743,748
Federal Reserve and Federal Home Loan Bank stock	3,723				3,723
Total rate-sensitive assets	429,649	120,216	404,138	160,999	$1,115,002
Rate-Sensitive Liabilities:					
Interest-bearing deposits	363,969	179,739	258,564	1,275	803,547
Securities sold under repurchase agreements	10,936	9,900	28,000		48,836
Other short-term borrowings	19,296				19,296
Federal Home Loan Bank advances	1,387	17,763	12,000	12,118	43,268
Total rate-sensitive liabilities	395,588	207,402	298,564	13,393	914,947
Interest rate sensitivity gap by period	$ 34,061	$ (87,186)	$ 105,574	$ 147,606	
Cumulative rate sensitivity gap	34,061	(53,125)	52,449	200,055	
Cumulative rate sensitivity gap ratio at December 31, 1998	108.6%	91.2%	105.8%	121.9%	

The Corporation had a cumulative negative gap of $53,125,000 in the one-year horizon at December 31, 1998, just over 4.5 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.

LIQUIDITY, INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK continued

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

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

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

	Rising	Falling
Prime	300 Basis Points	(300)Basis Points
Federal Funds	300	(300)
90-Day T-Bill	310	(275)
One-Year T-Bill	290	(270)
Three-Year T-Bill	290	(265)
Five-Year T-Note	290	(255)
Ten-Year T-Note	290	(245)
Interest Checking	100	(67)
MMIA Savings	150	(100)
Money Market Index	292	(243)
Regular Savings	100	(267)

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

	Flat/Base	Rising	Falling
Net Interest Income (Dollars in Thousands)	$ 64,520	$ 63,838	$ 62,713
Change vs. Flat/Base Scenario		$ (682)	$ (1,807)
Percent Change		(1.06%)	(2.80%)

EARNING ASSETS

Earning assets increased $151.2 million during 1998.

The table at right reflects the earning asset mix for the years 1998 and 1997 (at December 31).

Loans grew by $39.7 million while investment securities increased by $81.8 million, reflecting the Corporation's strategy to leverage its strong capital position.

Earning Assets
(Dollars in Millions)

	December 31, 1998	1997
Federal funds sold and interest-bearing time deposits	$ 38.2	$ 9.4
Securities available for sale	308.5	212.0
Securities held to maturity	20.9	35.3
Mortgage loans held for sale	0.8	0.5
Loans	743.0	703.3
Federal Reserve and Federal Home Loan Bank stock	3.7	3.4
Total	$1,115.1	$963.9

DEPOSITS, SECURITIES SOLD UNDER REPURCHASE AGREEMENTS, OTHER SHORT-TERM BORROWINGS AND FEDERAL HOME LOAN BANK ADVANCES

The table at right reflects the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements, U.S. Treasury demand notes and Federal Home Loan Bank advances) based on year-end levels at December 31, 1998 and 1997.

As of December 31 (Dollars in Millions)

	DEPOSITS	SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	OTHER SHORT-TERM BORROWINGS	FEDERAL HOME LOAN BANK ADVANCES
1998	$926.8	$48.8	$19.3	$43.3
1997	$843.8	$15.4	$11.4	$20.7

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 1998.

Asset yields declined .14 percent (FTE) in 1998, due primarily to a decline in interest rates. Interest costs declined by .03 percent resulting in a .11 percent decrease in net interest income (FTE) as a percent of average earning assets. Despite this "spread" decrease, net interest income increased by $2.1 million, due to the growth in average earning assets of $71.6 million.

(Dollars in Thousands)

	INTEREST INCOME (FTE) as a Percent of Average Earning Assets	INTEREST EXPENSE as a Percent of Average Earning Assets	NET INTEREST INCOME (FTE) as a Percent of Average Earning Assets	AVERAGE EARNING ASSETS	NET INTEREST INCOME on a fully Taxable Equivalent Basis
1998	8.13%	3.76%	4.37%	$1,012,907	$44,253
1997	8.27	3.79	4.48	941,351	42,139
1996	8.13	3.67	4.46	880,729	39,258

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

OTHER INCOME

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

Other income in 1998 amounted to $11,725,000, or 27 percent higher than in 1997. The increase of $2,496,000 is primarily attributable to the following factors:

1. Revenues from fiduciary activity grew $778,000, or 23.2 percent, due to strong new business activity and markets.

2. Commission income increased $711,000, or 230.1 percent, due to the acquisition of the Muncie office of Insurance & Risk Management, Inc., renamed First Merchants Insurance Services, on April 1, 1998.

3. Other customer fees increased $453,000, or 23.7 percent, due to increased electronic delivery methods and some minor price adjustments.

4. Other income increased $483,000, or 159.9 percent, due primarily to a $442,000 gain on sale of a Bank building.

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

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

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

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

OTHER EXPENSES

Total "other expenses" represent non-interest operating expenses of the Corporation. Those expenses amounted to $27,895,000 in 1998, an increase of 8.3 percent from the prior year, or $2,147,000. Four major areas account for most of the increase:

1. Salary and benefit expenses, which account for over one-half of the Corporation's non-interest operating expenses, grew by $1,319,000, or 9.2 percent, due to normal salary increases and staff additions.

2. Equipment expenses increased $375,000, or 16.0 percent, reflecting the Corporation's efforts to improve efficiency and provide electronic service delivery to its customers.

3. Net occupancy expense increased $212,000, or 13.1 percent, due primarily to increased branch expansion into new markets.

Operating costs in 1998 included start-up expenses for three banking centers opened in new markets. These banking centers helped implement our strategy of enlarging our presence in rapidly growing areas and should have a positive effect on earnings in 1999 and succeeding years.

OTHER EXPENSES continued

Expenses for 1997 amounted to $25,748,000, an increase of 6.7 percent from the prior year, or $1,613,000.

Four major areas account for most of the increase:

1. Salary and benefit expenses, which account for over one-half of the Corporation's non-interest operating expenses, grew by $889,000, or 6.6 percent, due to normal salary increases and staff additions.

2. Equipment expenses increased $193,000, or 9.0 percent, reflecting the Corporation's efforts to improve efficiency and provide electronic service delivery to its customers.

3. Marketing expenses rose $145,000, or 20.5 percent, due to more aggressive product promotion.

4. Outside data processing fees grew by $176,000, or 19.5 percent, due to increased debit card, credit card and trust activity.

INCOME TAXES

The increase in 1998 tax expense of $564,000 is attributable primarily to a $1,590,000 increase in net pre-tax income, mitigated somewhat by a $347,000 increase in tax-exempt income. Likewise, the $602,000 increase in 1997 resulted primarily from a $1,833,000 increase in pre-tax net income, mitigated somewhat by a $514,000 increase in tax-exempt income.

ACCOUNTING MATTERS

Accounting for Derivative Instruments and Hedging Activities

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

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

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

Statement No. 133 will be effective for all fiscal years beginning after June 15, 1999. The Statement may not be applied retroactively to financial statements of prior periods. The adoption of this Statement will have no material impact on the Corporation's financial condition or result of operations.

ACCOUNTING MATTERS continued

Accounting for Mortgage-Backed Securities Retained After the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise

Also in 1998, the FASB issued Statement No. 134, Accounting for Mortgage-Backed Securities Retained After the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise. It establishes accounting standards for certain activities of mortgage banking enterprises and for other enterprises with similar mortgage operations. This Statement amends Statement No. 65.

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

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

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

Reporting on the Costs of Start-Up Activities

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

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

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

Statement of Position 98-5 is effective for fiscal years beginning on or after December 15, 1998. Earlier application is encouraged in fiscal years during which annual financial statements have not yet been issued. The adoption of this Statement will not have a material impact on the Corporation's financial condition or result 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 bank holding company's operations is such that there will be an excess of monetary assets over monetary liabilities, and, thus, a bank holding company will tend to suffer from an increase in the rate of inflation and benefit from a decrease.

YEAR 2000

The Corporation has conducted a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 Issue and has developed an implementation plan to resolve the issue. The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Corporation's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations. The Corporation is utilizing both internal and external resources to identify, correct and test the systems for the Year 2000 compliance. The Corporation began the testing phase during the third quarter of 1998. Core application testing should be completed by March 31, 1999.

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

The Board of Directors reviews, on a quarterly basis, the progress in addressing Year 2000 issues. The Corporation believes that its costs related to upgrading systems and software for Year 2000 compliance will not exceed $900,000. As of December 31, 1998, the Corporation has spent approximately $625,000 in connection with Year 2000 compliance. Of the $625,000 approximately $550,000 has been capitalized as the Corporation replaced and upgraded non-compliant systems. Although the Corporation believes it is taking the necessary steps to address the Year 2000 compliance issue, no assurances can be given that some problems will not occur or that the Corporation will not incur significant additional expenses in future periods.

WEB SITE

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

CONSOLIDATED BALANCE SHEET
(In Thousands, Except Share Data)

	December 31, 1998	December 31, 1997
ASSETS		
Cash and due from banks	$ 33,908	$ 33,127
Federal funds sold	37,315	9,050
Cash and cash equivalents	71,223	42,177
Interest-bearing time deposits	855	385
Investment securities		
Available for sale	308,507	212,040
Held to maturity (fair value of $21,184 and $35,429)	20,854	35,332
Total investment securities	329,361	247,372
Mortgage loans held for sale	776	471
Loans	742,972	703,313
Less: Allowance for loan losses	(7,412)	(6,778)
Net loans	735,560	696,535
Premises and equipment	16,954	15,382
Federal Reserve and Federal Home Loan Bank stock	3,723	3,373
Interest receivable	9,173	8,968
Core deposit intangibles and goodwill	3,117	1,625
Other assets	6,430	3,848
Total assets	$ 1,177,172	$ 1,020,136
LIABILITIES		
Deposits		
Noninterest-bearing	$ 123,297	$ 115,613
Interest-bearing	803,547	728,199
Total deposits	926,844	843,812
Borrowings	111,400	47,529
Interest payable	3,614	3,615
Other liabilities	3,817	3,211
Total liabilities	1,045,675	898,167
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Preferred stock, no-par value		
Authorized and unissued - 500,000 shares		
Common stock, $.125 stated value		
Authorized - 20,000,000 shares		
Issued and outstanding - 10,086,083 and 6,664,439 shares	1,261	833
Additional paid-in capital	24,969	24,140
Retained earnings	103,076	95,449
Accumulated other comprehensive income	2,191	1,547
Total stockholders' equity	131,497	121,969
Total liabilities and stockholders' equity	$ 1,177,172	$ 1,020,136

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME
(In Thousands, Except Share Data)

	Year Ended December 31, 1998	1997	1996
Interest Income			
Loans receivable			
Taxable	$ 63,062	$ 59,773	$ 52,096
Tax exempt	201	116	90
Investment securities			
Taxable	10,858	10,818	12,832
Tax exempt	4,582	4,320	3,832
Federal funds sold	720	172	498
Deposits with financial institutions	27	34	16
Federal Reserve and Federal Home Loan Bank stock	278	242	132
Total interest income	79,728	75,475	69,496
Interest Expense			
Deposits	33,752	31,920	29,139
Securities sold under repurchase agreements	2,015	1,563	2,137
Federal Home Loan Bank advances	1,645	949	523
Other borrowings	638	1,293	550
Total interest expense	38,050	35,725	32,349
Net Interest Incomei	41,678	39,750	37,147
Provision for loan losses	1,984	1,297	1,253
Net Interest Income After Provision for Loan Losses	39,694	38,453	35,894
Other Income			
Fiduciary activities	4,133	3,355	2,967
Service charges on deposit accounts	3,303	3,365	3,024
Other customer fees	2,365	1,912	1,659
Net realized gains (losses) on sales of available-for-sale securities	119	(14)	148
Commission income	1,020	309	344
Other income	785	302	200
Total other income	11,725	9,229	8,342
Other Expenses			
Salaries and employee benefits	15,641	14,322	13,433
Net occupancy expenses	1,832	1,620	1,537
Equipment expenses	2,720	2,345	2,152
Marketing expense	817	851	706
Deposit insurance expense	100	97	12
Outside data processing fees	1,061	1,077	901
Printing and office supplies	893	1,021	923
Other expenses	4,831	4,415	4,471
Total other expenses	27,895	25,748	24,135
Income Before Income Tax	23,524	21,934	20,101
Income tax expense	8,125	7,561	6,959
Net Income	$ 15,399	$ 14,373	$ 13,142
Net Income Per Share:			
Basic	$ 1.53	$ 1.44	$ 1.33
Diluted	1.51	1.43	1.32

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Dollar Amounts In Thousands)

	Year Ended December 31,		
	1998	1997	1996
Net income	$ 15,399	$ 14,373	$ 13,142
Other comprehensive income, net of tax:			
Unrealized gains (losses) on securities available for sale:			
Unrealized holding gains (losses) arising during the period, net of income tax of $(487), $(424) and $601	715	623	(882)
Less: Reclassification adjustment for (gains) losses included in net income, net of income tax of $48, ($6) and $60	(71)	8	(88)
	644	631	(970)
Comprehensive income	$ 16,043	$ 15,004	$ 12,172

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In Thousands, Except Share Data)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
Balances, January 1, 1996	6,562,290	$ 820	$22,055	$ 80,205	$1,886	$104,966
Net income for 1996				13,142		13,142
Cash dividends ($.59 per share)				(5,369)		(5,369)
Other comprehensive income, net of tax					(970)	(970)
Stock issued under employee benefit plans	15,175	2	296			298
Stock issued under dividend reinvestment and stock purchase plan	21,712	3	555			558
Stock options exercised	4,237		64			64
Cash paid in lieu of issuing fractional shares	(95)		(2)			(2)
Balances, December 31, 1996	6,603,319	825	22,968	87,978	916	112,687
Net income for 1997				14,373		14,373
Cash dividends ($.69 per share)				(6,902)		(6,902)
Other comprehensive income, net of tax					631	631
Stock issued under employee benefit plans	13,690	2	289			291
Stock issued under dividend reinvestment and stock purchase plan	23,276	3	723			726
Stock options exercised	24,154	3	160			163
Balances, December 31, 1997	6,664,439	833	24,140	95,449	1,547	121,969
Net income for 1998				15,399		15,399
Cash dividends ($.77 per share)				(7,772)		(7,772)
Other comprehensive income, net of tax					644	644
Stock issued under employee benefit plans	14,471	2	383			385
Stock issued under dividend reinvestment and stock purchase plan	19,092	2	677			679
Stock options exercised	31,606	4	267			271
Stock redeemed	(2,000)		(72)			(72)
Three-for-two stock split	3,358,760	420	(420)			
Cash paid in lieu of issuing fractional shares	(285)		(6)			(6)
Balances, December 31, 1998	10,086,083	$ 1,261	$24,969	$(103,076	$2,191	$131,497

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands, Except Share Data)

	Year Ended December 31, 1998	1997	1996
Operating Activities:			
Net income	$ 15,399	$ 14,373	$ 13,142
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,984	1,297	1,253
Depreciation and amortization	1,970	1,810	1,626
Amortization of goodwill and intangibles	184	89	131
Deferred income tax	28	(35)	401
Securities amortization, net	179	236	188
Securities losses (gains), net	(119)	14	(148)
Gain on sale of premises and equipment	(442)		
Mortgage loans originated for sale	(10,251)	(7,139)	(2,501)
Proceeds from sales of mortgage loans	9,946	6,952	2,952
Net change in			
Interest receivable	(205)	(325)	357
Interest payable	(1)	239	(40)
Other adjustments	(2,426)	(1,050)	(593)
Net cash provided by operating activities	16,246	16,461	16,768
Investing Activities:			
Net change in interest-bearing deposits	(470)	(95)	(31)
Purchases of			
Securities available for sale	(184,585)	(68,524)	(113,473)
Securities held to maturity	(90)	(2,652)	(22,450)
Proceeds from maturities of			
Securities available for sale	83,556	73,786	96,441
Securities held to maturity	14,250	15,878	35,715
Proceeds from sales of			
Securities available for sale	5,886	10,552	13,120
Net change in loans	(41,009)	(73,038)	(80,404)
Acquisition of insurance subsidiary	(1,254)		
Purchase of Federal Home Loan Bank stock	(350)	(283)	(389)
Purchases of premises and equipment	(4,447)	(2,157)	(2,083)
Proceeds from sale of fixed assets	1,029		
Other investing activities	(104)	236	71
Net cash used by investing activities	(127,588)	(46,297)	(73,483)
Financing Activities:			
Net change in			
Demand and savings deposits	77,474	16,242	(19,168)
Certificates of deposit and other time deposits	5,558	33,119	29,683
Repurchase agreements and other borrowings	41,303	(18,208)	7,659
Federal Home Loan Bank advances	27,657	11,550	7,150
Repayment of Federal Home Loan Bank advances	(5,089)		(7,000)
Cash dividends	(7,772)	(6,902)	(5,369)
Stock issued under employee benefit plans	385	291	298
Stock issued under dividend reinvestment and stock purchase plan	679	726	558
Stock options exercised	271	163	64
Stock redeemed	(72)		
Cash paid in lieu of issuing fractional shares	(6)		(2)
Net cash provided by financing activities	140,388	36,981	13,873
Net Change in Cash and Cash Equivalents	29,046	7,145	(42,842)
Cash and Cash Equivalents, Beginning of Year	42,177	35,032	77,874
Cash and Cash Equivalents, End of Year	$ 71,223	$ 42,177	$ 35,032
Additional Cash Flows Information:			
Interest paid	$ 38,051	$ 35,486	$ 32,388
Income tax paid	8,252	7,602	6,203

See Notes to Consolidated Financial Statements.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS
(Table Dollar Amounts in Thousands, Except Share Data)

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NOTE 1
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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"), Pendleton Banking Company ("Pendleton"), and its subsidiary First Merchants Insurance Services, Inc., First United Bank ("First United"), The Randolph County Bank ("Randolph County"), and Union County National Bank ("Union County"), (collectively "the Banks"), 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 bank holding company whose principal activity is the ownership and management of the Banks. First Merchants and Union County operate under national bank charters and provide full banking services, including trust services. As national banks, First Merchants and Union County are subject to the regulation of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation ("FDIC"). Pendleton, First United and Randolph County operate under state bank charters and provide full banking services, including trust services. As state banks, Pendleton, First United and Randolph County 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 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.

Consolidation

The consolidated financial statements include the accounts of the Corporation and the Banks, 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 as accumulated other comprehensive income in stockholders' equity, 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 are recognized through a valuation allowance by charges to income.

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 uncollectible. 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.

Allowance for Loan Losses is maintained to absorb potential loan losses based on management's continuing review and evaluation of the loan portfolio and its judgment as to the impact of economic conditions on the portfolio. The evaluation by management includes consideration of past loan loss experience, changes in the composition of the loan portfolio, the current condition and amount of loans outstanding, and the probability of collecting all amounts due.

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.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. Management believes that, as of December 31, 1998, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the area within which the Corporation operates would increase the likelihood of additional losses due to credit and market risks and could create the need for additional loss reserves.

 continued

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 are being amortized on the straight-line basis over periods ranging from 7 to 25 years. Such assets are periodically evaluated as to the recoverability of their carrying value.

Income Tax in the consolidated statement 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 with an exercise price equal to the fair value of the shares at the date of grant. The Corporation accounts for and will continue to account for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and accordingly, recognizes no compensation expense for the stock option grants.

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 three-for-two stock split distributed to stockholders on October 23, 1998.

Reclassifications of certain amounts in the prior years consolidated financial statements have been made to conform to the 1998 presentation.

NOTE 2

Business Combinations

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

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

On August 1, 1996, the Corporation issued 1,414,028 shares of its common stock in exchange for all of the outstanding shares of Union National Bancorp, Liberty, Indiana. On October 2, 1996, the Corporation issued 848,558 shares of its common stock in exchange for all of the outstanding shares of Randolph County Bancorp, Winchester, Indiana. These transactions were accounted for under the pooling-of-interests method of accounting. The financial information contained herein reflects the mergers and reports the financial condition and results of operations as though the Corporation had been combined as of January 1, 1996. Separate operating results of Union National Bancorp and Randolph County Bancorp for the periods prior to the merger were as follows on page 34:

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 2

Business Combinations continued

	1996
Net interest income:	
First Merchants Corporation	$33,060
Union National Bancorp	2,961
Randolph County Bancorp	1,126
Combined	$37,147
Net income:	
First Merchants Corporation	$11,556
Union National Bancorp	974
Randolph County Bancorp	612
Combined	$13,142
Net income per share:	
Basic:	
First Merchants Corporation	$ 1.17
Union National Bancorp	.10
Randolph County Bancorp	.06
Combined	$ 1.33
Diluted:	
First Merchants Corporation	$ 1.16
Union National Bancorp	.10
Randolph County Bancorp	.06
Combined	$ 1.32

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, 1998, was $12,229,000.

(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, 1998				
U.S. Treasury	$ 20,269	$ 95		$ 20,364
Federal agencies	52,598	577	$ 19	53,156
State and municipal	86,537	2,620	4	89,153
Mortgage-backed securities	126,329	424	183	126,570
Other asset-backed securities	265	1	11	255
Corporate obligations	18,624	143	8	18,759
Marketable equity securities	250			250
Total available for sale	304,872	3,860	225	308,507
Held to maturity at December 31, 1998				
U.S. Treasury	249	4		253
Federal agencies	500	1		501
State and municipal	17,480	348	1	17,827
Mortgage-backed securities	864	3		867
Other asset-backed securities	1,761	2	27	1,736
Total held to maturity	20,854	358	28	21,184
Total investment securities	$325,726	$ 4,218	$ 253	$329,691
Available for sale at December 31, 1997				
U.S. Treasury	$ 19,207	$ 104	$ 11	$ 19,300
Federal agencies	66,783	405	48	67,140
State and municipal	67,842	1,815	28	69,629
Mortgage-backed securities	36,682	362	86	36,958
Other asset-backed securities	487	2	54	435
Corporate obligations	18,219	139	30	18,328
Marketable equity securities	250			250
Total available for sale	209,470	2,827	257	212,040
Held to maturity at December 31, 1997				
U.S. Treasury	249		2	247
Federal agencies	3,412	6	1	3,417
State and municipal	26,206	252	2	26,456
Mortgage-backed securities	1,255	4	1	1,258
Other asset-backed securities	4,210	7	166	4,051
Total held to maturity	35,332	269	172	35,429
Total investment securities	$244,802	$ 3,096	$ 429	$247,469

The amortized cost and fair value of securities held to maturity and available for sale at December 31, 1998, by contractual maturity, are shown on the following page. 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.

continued

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 4

Investment Securities continued

	AVAILABLE FOR SALE		HELD TO MATURITY	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Maturity distribution at December 31, 1998:				
Due in one year or less	$ 52,579	$ 52,837	$ 5,370	$ 5,397
Due after one through five years	93,213	94,927	10,741	11,003
Due after five through ten years	26,830	28,047	1,638	1,701
Due after ten years	5,406	5,621	480	480
	178,028	181,432	18,229	18,581
Mortgage-backed securities	126,329	126,570	864	867
Other asset-backed securities	265	255	1,761	1,736
Marketable equity securities	250	250		
Totals	$304,872	$308,507	$ 20,854	$ 21,184

Securities with a carrying value of approximately $144,863,000 and $92,991,000 were pledged at December 31, 1998 and 1997, 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 1998, 1997 and 1996 were $5,886,000, $10,552,000, and $13,120,000. Gross gains of $119,000 and $148,000 in 1998 and 1996 and gross losses of $14,000 in 1997 were realized on those sales.

NOTE 5

Loans and Allowance

	1998	1997
Loans at December 31:		
Commercial and industrial loans	$ 169,685	$ 148,281
Bankers' acceptances and loans to financial institutions	900	705
Agricultural production financing and other loans to farmers	16,661	16,764
Real estate loans:		
Construction	26,426	21,389
Commercial and farmland	95,172	97,503
Residential	302,680	287,072
Individuals' loans for household and other personal expenditures	128,253	125,706
Tax-exempt loans	2,115	2,598
Other loans	1,217	3,782
	743,109	703,800
Unearned interest on loans	(137)	(487)
Total loans	$ 742,972	$ 703,313

	1998	1997	1996
Allowance for loan losses:			
Balance, January 1	$ 6,778	$ 6,622	$(6,696)
Provision for losses	1,984	1,297	1,253
Recoveries on loans	531	468	309
Loans charged off	(1,881)	(1,609)	(1,636)
Balance, December 31	$ 7,412	$ 6,778	$6,622

continued

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 5

Loans and Allowance continued

Information on impaired loans is summarized below:

	1998	1997	1996
As of, and for, the year ending December 31:			
Impaired loans with an allowance	$1,946	$1,476	$3,124
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	6,882	1,075	868
Total impaired loans	$8,828	$2,551	$3,992
Allowance for impaired loans (included in the Corporation's allowance for loan losses)	$ 712	$ 407	$1,092
Average balance of impaired loans	8,318	3,414	5,213
Interest income recognized on impaired loans	873	180	311
Cash basis interest included above	745	162	291

The Banks have entered into transactions with certain directors, executive officers, significant stockholders, and their affiliates or associates ("related parties"). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

The aggregate amount of loans, as defined, to such related parties is as shown on the right:

Balances, January 1, 1998	$ 12,433
New loans, including renewals	5,440
Payments, etc., including renewals	(5,432)
Balances, December 31, 1998	$ 12,441

NOTE 6

Premises and Equipment

	1998	1997
Cost at December 31:		
Land	$ 2,991	$ 2,826
Buildings and leasehold improvements	15,660	13,723
Equipment	16,385	15,320
Total cost	35,036	31,869
Accumulated depreciation	(18,082)	(16,487)
Net	$ 16,954	$ 15,382

The Corporation is committed under various noncancelable lease contracts for certain subsidiary office facilities. Total lease expense for 1998, 1997 and 1996 was $204,000, $141,000, and $134,000, respectively. The future minimum rental commitments required under the operating leases in effect at December 31, 1998, expiring at various dates through the year 2016, follow on the right for the years ending December 31:

1999	$180
2000	159
2001	116
2002	99
2003	48
After 2003	177
Total future minimum obligations	$779

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 7

Deposits

	1998	1997
Deposits at December 31:		
Demand deposits	$261,708	$234,905
Savings deposits	227,624	176,953
Certificates and other time deposits of $100,000 or more	91,579	104,100
Other certificates and time deposits	345,933	327,854
Total deposits	$926,844	$843,812

Certificates and other time deposits maturing in years ending December 31:

1999	$302,973
2000	87,437
2001	26,694
2002	13,270
2003	5,863
After 2003	1,275
	$437,512

NOTE 8

Borrowings

	1998	1997
Borrowings at December 31:		
Securities sold under repurchase agreements	$ 48,836	$ 15,398
Federal funds purchased	17,070	4,070
U. S. Treasury demand notes	2,226	7,361
Federal Home Loan Bank advances	43,268	20,700
Total borrowings	$111,400	$ 47,529

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 1998 and 1997 totaled $78,302,000 and $33,802,000, and the average of such agreements totaled $36,506,000 and $31,327,000.

Maturities of Federal Home Loan Bank advances and securities sold under repurchase agreements as of December 31, 1998 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				
1999	$19,150	5.45%	$20,836	5.07%
2000	2,850	5.84	11,700	5.69
2001	6,000	5.44	2,500	5.73
2002	150	7.07		
2003	3,000	5.26	13,800	5.80
After 2003	12,118	6.26		
Total	$43,268	5.69	$48,836	5.46

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.

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 9

Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheet. The loans are serviced primarily for the Federal Home Loan Mortgage Corporation and the unpaid balances totaled $15,541,000 and $11,877,000 at December 31, 1998 and 1997.

The Corporation has adopted SFAS No. 122, Accounting for Mortgage Servicing Rights. The adoption of this statement has had no material impact on the Corporation's financial condition and results of operations for all years presented.

NOTE 10

Income Tax

	1998	1997	1996
Income tax expense, for the year ended December 31:			
Currently payable:			
Federal	$ 6,090	$ 5,702	$ 4,903
State	2,007	1,894	1,655
Deferred:			
Federal	38	(21)	336
State	(10)	(14)	65
Total income tax expense	$ 8,125	$ 7,561	$ 6,959
Reconciliation of federal statutory to actual tax expense:			
Federal statutory income tax at 34%	$ 7,998	$ 7,458	$ 6,834
Tax-exempt interest	(1,311)	(1,257)	(1,140)
Graduated tax rates	173		
Effect of state income taxes	1,318	1,241	1,135
Other	(53)	119	130
Actual tax expense	$ 8,125	$ 7,561	$ 6,959

Tax expense (benefit) applicable to security gains and losses for the years ended December 31, 1998, 1997 and 1996, was $47,600, $(5,700) and $60,000, respectively.

A cumulative net deferred tax asset is included in other assets. The components of the asset are as follows:

	1998	1997
Deferred tax asset at December 31:		
Assets:		
Differences in accounting for loan losses	$3,042	$2,692
Deferred compensation	344	313
Differences in accounting for pensions and other employee benefits	84	183
Total assets	3,470	3,188
Liabilities:		
Differences in depreciation methods	968	1,012
Differences in accounting for loans and securities	206	125
Differences in accounting for loan fees	228	28
Net unrealized gain on securities available for sale	1,444	1,023
State income tax	141	146
Other	91	69
Total liabilities	3,078	2,403
Net deferred tax asset	$ 392	$ 785

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 11

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 Banks' 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 sheet.

	1998	1997
Commitments to extend credit	$185,879	$138,828
Standby letters of credit	4,310	4,649

Financial instruments whose contract amount represents credit risk as of December 31, were as follows: 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 12

Year 2000

Like all entities, the Corporation and subsidiaries are exposed to risks associated with the Year 2000 Issue, which affects computer software and hardware; transactions with customers, vendors and entities; and equipment dependent upon microchips. The Company has begun, but not yet completed, the process of remediating potential Year 2000 problems. It is not possible for any entity to guarantee the results of its own remediation efforts or to accurately predict the impact of the Year 2000 Issue on third parties with which the Company and subsidiaries do business. If remediation efforts of the Company or third parties with which the Company and subsidiaries do business are not successful, the Year 2000 Issue could have negative effects on the Company's financial condition and results of operations in the near term.

NOTE 13

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. The amount at December 31, 1998, available for 1999 dividends to the Corporation is $23,878,000. The subsidiaries restrict dividends to a lesser amount because of the need to maintain an adequate capital structure.

Total stockholders' equity for all subsidiaries at December 31, 1998, was $129,067,000, of which $105,189,000 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, 1998, there were 543,913 shares of common stock reserved for purchase under the plan.

On August 11, 1998, the Board of Directors of the Corporation declared a three-for-two stock split on its common shares. The new shares were distributed on October 23, 1998, to holders of record on October 16, 1998.

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 14

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, 1998, 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 Corporation and 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.

Actual and required capital amounts and ratios are as follows:

	1998				1997			
	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..............................	$133,762	16.9%	$ 63,206	8.0%	$125,762	17.9%	$ 56,166	8.0%
First Merchants	79,685	15.7	40,678	8.0	75,539	17.4	34,756	8.0
Pendleton	13,486	18.5	5,844	8.0	12,256	17.4	5,628	8.0
First United	8,069	18.5	3,484	8.0	7,570	18.2	3,332	8.0
Randolph County	10,574	18.2	4,640	8.0	10,278	15.1	5,448	8.0
Union County	19,375	16.4	9,451	8.0	18,075	17.0	8,498	8.0
Tier I Capital (1) (to risk-weighted assets)								
Consolidated..............................	$126,350	16.0%	$ 31,603	4.0%	$118,984	16.9%	$ 28,083	4.0%
First Merchants	75,752	14.9	20,338	4.0	71,900	16.6	17,378	4.0
Pendleton	12,701	17.4	2,922	4.0	11,506	16.4	2,814	4.0
First United	7,599	17.5	1,742	4.0	7,133	17.1	1,666	4.0
Randolph County	9,848	17.0	2,320	4.0	9,548	14.0	2,724	4.0
Union County	17,966	15.2	4,726	4.0	16,852	15.9	4,249	4.0
Tier I Capital (1) (to average assets)								
Consolidated..............................	$126,350	11.9%	$ 42,464	4.0%	$118,984	11.9%	$ 40,010	4.0%
First Merchants	75,752	10.8	27,981	4.0	71,900	11.7	24,548	4.0
Pendleton	12,701	12.4	4,092	4.0	11,506	11.8	3,897	4.0
First United	7,599	11.5	2,646	4.0	7,133	11.5	2,481	4.0
Randolph County	9,848	13.0	3,042	4.0	9,548	14.0	2,733	4.0
Union County	17,966	8.6	8,362	4.0	16,852	9.1	7,438	4.0

(1) As defined by regulatory agencies

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 15

Employee Benefit Plans

The Corporation's defined-benefit pension plans cover substantially all of the Banks' 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.

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

	December 31	
	1998	1997
Change in benefit obligation		
Benefit obligation at beginning of year	$ 14,454	$ 13,060
Service cost	688	624
Interest cost	1,044	956
Actuarial gain	793	388
Benefits paid	(660)	(574)
Benefit obligation at end of year	16,319	14,454
Change in plan assets		
Fair value of plan assets at beginning of year	18,865	15,188
Actual return of plan assets	1,038	4,251
Benefits paid	(660)	(574)
Fair value of plan assets at end of year	19,243	18,865
Funded status	2,924	4,411
Unrecognized net actuarial gain	(2,579)	(4,169)
Unrecognized prior service cost	(144)	(156)
Unrecognized transition asset	(480)	(617)
Accrued benefit cost	$ (279)	$ (531)

	1998	1997	1996
Pension expense (benefit) includes the following components:			
Service cost-benefits earned during the year	$ 688	$ 624	$ (537
Interest cost on projected benefit obligation	1,044	956	921
Actual return on plan assets	(1,038)	(4,251)	(1,966)
Net amortization and deferral	(946)	2,810	699
Total pension expense (benefit)	$ (252)	$ 139	$ 191

	1998	1997	1996
Assumptions used in the accounting as of December 31 were:			
Discount rate	6.77%	7.40%	7.50%
Rate of increase in compensation	4.00%	4.50%	4.50%
Expected long-term rate of return on assets	9.00%	9.00%	8.75%

Randolph County employees participated in a defined-benefit pension plan, which is included in the above disclosures. This plan was merged with the Corporation's plan as of December 31, 1996. Randolph County's plan assumptions used in the accounting were different than the Corporation's plan assumptions. However, the differences do not have a material impact on the disclosures presented.

In 1989, stockholders approved the 1989 Stock Option Plan, reserving 253,125 shares of Corporation common stock for the granting of options to certain employees. The exercise price of the shares may not be less than the fair market value of the shares upon grant of the option. Options become 100 percent vested when granted and are fully exercisable generally six months after the date of grant, for a period of ten years. There were no shares available for grant at December 31, 1998.

 continued

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 15

Employee Benefit Plans continued

On March 31, 1994, stockholders approved the 1994 Stock Option Plan, reserving 472,500 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 34,829 shares available for grant at December 31, 1998.

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, 1998, 1997 and 1996. The number of shares and prices have been restated to give effect to the Corporation's 1998 stock split.

	Year Ended December 31,					
	1998		1997		1996	
OPTIONS	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding, beginning of year ...	447,577	$14.98	408,127	$12.89	334,532	$12.05
Granted	97,645	28.64	96,375	20.91	79,950	16.18
Exercised	(67,628)	12.99	(56,925)	9.99	(6,355)	10.11
Cancelled	(862)	28.71				
Outstanding, end of year	476,732	$18.04	447,577	$14.98	408,127	$12.89
Options exercisable at year end ..	376,949		348,652		324,925	
Weighted-average fair value of options granted during the year		$ 5.95		$ 4.21		$ 3.39

As of December 31, 1998, 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 CONTRACTURAL LIFE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
$ 6.07 - $14.39	166,589	$11.72	4.4 years	166,589	$11.72
15.39 - 20.92	213,360	18.16	7.7 years	207,360	18.17
24.67 - 30.44	96,783	28.63	9.6 years	3,000	26.13
	476,732	$18.04	6.9 years	376,949	$15.38

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. The exercise price of each option was equal to the market price of the Corporation's stock on the date of grant; therefore, no compensation expense was recognized.

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

	1998	1997	1996
Risk-free interest rates	5.45%	6.54%	6.66%
Dividend yields	3.25%	3.37%	3.41%
Volatility factors of expected market price common stock	17.19%	11.20%	12.00%
Weighted-average expected life of the options	8.50 years	8.50 years	8.50 years

continued

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 15

Employee Benefit Plans continued

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 on the right:

	1998	1997	1996
Net Income			
As reported	$15,399	$14,373	$13,142
Pro Forma	14,650	13,948	12,852
Earnings per share			
Basic:			
As reported	$ 1.53	$ 1.44	$ 1.33
Pro forma	1.46	1.40	1.30
Diluted:			
As reported	$ 1.51	$ 1.43	$ 1.32
Pro forma	1.44	1.38	1.29

In 1994, the stockholders approved the 1994 Employee Stock Purchase Plan, enabling eligible employees to purchase the Corporation's common stock. A total of 253,125 shares of the Corporation's common stock are reserved for issuance persuant 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 21,706 shares in 1998 at $17.71 per share. The fair market value per share on the purchase date was $30.44.

At December 31, 1998, there were 162,977 shares of Corporation common stock reserved for purchase under the plan, and $444,000 has been withheld from compensation, plus interest, toward the purchase of shares after June 30, 1999, 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 the table above and were estimated using an option pricing model with the following assumptions for 1998, 1997 and 1996, respectively: dividend yield of 3.25, 3.37 and 3.41 percent; an expected life of one year for all years; expected volatility of 17.19, 11.20 and 12.00 percent; and risk-free interest rates of 5.41, 6.54 and 6.66 percent. The fair value of those purchase rights granted in 1998, 1997 and 1996 was $12.69, $5.03 and $4.68, respectively.

The Banks have retirement savings 401(k) plans in which substantially all employees may participate. The Banks match employees' contributions at the rate of 25-50 percent for the first 5-6 percent of base salary contributed by participants. The Banks' expense for the plans was $108,000 for 1998, $110,000 for 1997, and $92,000 for 1996.

NOTE 16

Net Income Per Share

Year Ended December 31,

	1998			1997		
	INCOME	WEIGHTED-AVERAGE SHARES	PER SHARE AMOUNT	INCOME	WEIGHTED-AVERAGE SHARES	PER SHARE AMOUNT
Basic net income per share:						
Net income available to common stockholders	$15,399	10,045,502	$ 1.53	$14,373	9,950,303	$ 1.44
Effect of dilutive stock options .		155,568			135,157	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions	$15,399	10,201,070	$ 1.51	$14,373	10,085,460	$ 1.43

1996		
	WEIGHTED-AVERAGE	PER SHARE

	INCOME	SHARES	AMOUNT
Basic net income per share:			
Net income available to common stockholders	$13,142	9,871,751	$ 1.33
Effect of dilutive stock options .		99,556	
Diluted net income per share:			
Net income available to common stockholders and assumed conversions	$13,142	9,971,307	$ 1.32

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 17

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.

Interest Receivable/Payable

The fair values of interest receivable/payable approximate carrying values.

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.

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.

Federal Funds Purchased and U.S. Treasury Demand Notes

These financial instruments are short-term borrowing arrangements. The rates at December 31, 1998 and 1997, approximate market rates, thus the fair value approximates carrying value.

Securities Sold Under Repurchase Agreements and Federal Home Loan Bank Advances

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:

	1998		1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets at December 31:				
Cash and cash equivalents	$ 71,223	$ 71,223	$ 42,177	$ 42,177
Interest-bearing time deposits	855	855	385	385
Investment securities available for sale	308,507	308,507	212,040	212,040
Investment securities held to maturity	20,854	21,184	35,332	35,429
Mortgage loans held for sale	776	776	471	471
Loans	742,972	751,589	703,313	704,335
FRB and FHLB stock	3,723	3,723	3,373	3,373
Interest receivable	9,173	9,173	8,968	8,968

Liabilities at December 31:				
Deposits	926,844	928,712	843,812	845,277
Borrowings:				
Securities sold under repurchase agreements	48,836	43,903	15,398	15,398
Federal funds purchased	17,070	17,070	4,070	4,070
U.S. Treasury demand notes	2,226	2,226	7,361	7,361
FHLB advances	43,268	43,425	20,700	21,114
Interest payable	3,614	3,614	3,615	3,615

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 18

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, 1998	December 31, 1997
Assets		
Cash	$ 84	$ 318
Loans to affiliates	1,500	
Security purchased with agreement to resell to an affiliate		2,000
Investment securities available for sale	250	250
Investment in subsidiaries	129,067	118,732
Goodwill	535	553
Other assets	329	230
Total assets	$131,765	$122,083
Liabilities'	$ 268	$ 114
Stockholders' Equityi	131,497	121,969
Total liabilities and stockholders' equity	$131,765	$122,083

CONDENSED STATEMENT OF INCOME Year Ended December 31,

	1998	1997	1996
Income			
Dividends from subsidiaries	$ 7,772	$ 6,903	$ 5,420
Other income	105	101	25
Total income	7,877	7,004	5,445
Expenses			
Amortization of core deposit intangibles, goodwill, and fair value adjustments	45	45	43
Business combination expenses	36		258
Other expenses	500	591	269
Total expenses	581	636	570
Income Before Income Tax Benefit and Equity in Undistributed Income of Subsidiariesi	7,296	6,368	4,875
Income tax benefit	(201)	(193)	(100)
Income Before Equity in Undistributed Income of Subsidiaries.	7,497	6,561	4,975
Equity in undistributed income of subsidiaries	7,902	7,812	8,167
Net Income	$ 15,399	$ 14,373	$ 13,142

continued

(Table Dollar Amounts in Thousands, Except Share Data)

NOTE 18

Condensed Financial Information (Parent Company Only) continued

CONDENSED STATEMENT OF CASH FLOWS

	Year Ended December 31, 1998	1997	1996
Operating Activities:			
Net income	$ 15,399	$ 14,373	$ 13,142
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	18	17	20
Equity in undistributed income of subsidiaries	(7,902)	(7,812)	(8,167)
Security gains			(19)
Net change in:			
Other assets	(131)	25	567
Other liabilities	126	16	(337)
Net cash provided by operating activities	7,510	6,619	5,206
Investing Activities:			
Security purchased with an agreement to resell to an affiliate	2,000	(1,000)	(1,000)
Net change in loans	(1,500)		
Proceeds from sales of securities available for sale		8	103
Investment in subsidiary	(1,729)		
Other investing activities			(78)
Net cash used by investing activities	(1,229)	(992)	(975)
Financing Activities:			
Cash dividends	(7,772)	(6,902)	(5,369)
Stock issued under employee benefit plans	385	291	298
Stock issued under dividend reinvestment and stock purchase plan	679	726	558
Stock options exercised	271	163	64
Stock redeemed	(72)		
Cash paid in lieu of issuing fractional shares	(6)		(2)
Net cash used by financing activities	(6,515)	(5,722)	(4,451)
Net change in cash	(234)	(95)	(220)
Cash, beginning of year	318	413	633
Cash, end of year	$ 84	$ 318	$ 413

NOTE 19

Quarterly Results of Operations (Unaudited)

The following table sets forth certain quarterly results for the years ended December 31, 1998 and 1997:

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
1998:									
March	$19,122	$8,970	$10,152	$411	$3,824	10,005,041	10,186,400	$.38	$.38
June	19,736	9,431	10,305	411	3,798	10,024,931	10,210,374	.38	.37
Sept	20,145	9,687	10,458	446	3,891	10,071,921	10,222,876	.39	.38
Dec	20,725	9,962	10,763	716	3,886	10,080,117	10,217,407	.38	.38
	$79,728	$38,050	$41,678	$1,984	$15,399	10,045,502	10,201,070	$1.53	$1.51
1997:									
March	$17,884	$8,343	$9,541	$287	$3,429	9,907,518	10,039,461	$.35	$.34
June	18,980	8,901	10,079	290	3,707	9,928,085	10,054,069	.37	.37
Sept	19,042	9,132	9,910	375	3,536	9,974,990	10,101,611	.35	.35
Dec	19,569	9,349	10,220	345	3,701	9,990,621	10,146,708	.37	.37
	$75,475	$35,725	$39,750	$1,297	$14,373	9,950,303	10,085,460	$1.44	$1.43

[GRAPHIC]

First Merchants Corporation currently provides services through offices located in Delaware, Fayette, Hamilton, Henry, Madison, Wayne, Randolph and Union counties in Indiana and Butler county in Ohio.

[LOGO]
First Merchants Corporation

Corporate Office

200 East Jackson Street
Muncie, Indiana 47305-2814

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

First Merchants Corporation of Muncie, Indiana, was organized in September, 1982, as the bank holding company for The Merchants National Bank, now First Merchants Bank, N.A., an institution which has served Muncie and the surrounding communities since 1893.

In November 1988, First Merchants acquired Pendleton Banking Company of Pendleton, Indiana, a commercial bank which was organized in 1872.

In July 1991, the Corporation acquired First United Bank of Middletown, Indiana, which was established in 1882.

In August 1996, First Merchants Corporation acquired Union County National Bank, established in 1872 and based in Liberty, Indiana.

In October 1996, the Corporation acquired The Randolph County Bank of Winchester, Indiana, which was founded in 1865.

In April 1998, the Corporation acquired the Muncie office of Insurance & Risk Management, Inc., renamed First Merchants Insurance Services, Inc.

Subsidiaries of First Merchants Corporation conduct a full range of banking operations, including commercial, industrial, consumer and real estate lending, deposit and investment services, and other banking services. First Merchants Bank, with more than one billion dollars in fiduciary assets at market value, operates one of the ten largest trust departments in Indiana.

First Merchants Corporation is committed to the sound management of its subsidiaries and to leading its east central Indiana marketplace in meeting customer banking needs and expectations.

[PHOTO]

Annual
MEETING

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

Wednesday, April 14, 1999 o 3:30 p.m.

Horizon Convention Center
401 South High Street
Muncie, Indiana 47305

STOCKHOLDER INFORMATION

Stock PRICE & Dividend INFORMATION

PRICE PER SHARE

QUARTER	HIGH 1998	HIGH 1997	LOW 1998	LOW 1997	DIVIDENDS DECLARED 1998	DIVIDENDS DECLARED 1997
First Quarter	$27.67	$20.00	$24.50	$16.83	$.187	$.160
Second Quarter	31.83	20.50	25.67	18.50	.187	.160
Third Quarter	30.83	21.58	24.00	20.00	.200	.187
Fourth Quarter	28.75	25.33	21.50	21.42	.200	.187

The table above lists per share prices and dividend payments during 1998 and 1997.

Prices are as reported by the National Association of Securities Dealers.

Automated Quotation - National Market System.

Numbers rounded to nearest cent when applicable.

Restated for 3-for-2 stock split distributed October, 1998.

STOCK INFORMATION

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 December 31, 1998, the number of shares outstanding was 10,086,083. There were 1,555 stockholders of record on that date.

Market Makers

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

Robert W. Baird & Co., Inc.

Keefe, Bruyette & Woods, Inc.

Knight Securities, L.P.

Herzog, Heine, Geduld, Inc.

Howe, Barnes & Johnson, Inc.

McDonald Investments Inc.

NatCity Investments, Inc.

Troster Securities, L.P.

General Stockholder Inquiries

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

Mr. Douglas B. Harris
Vice President
Investor Services & Bank Investments
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

First Merchants Bank, N.A.
Corporate Trust Department
P. O. Box 792
Muncie, Indiana 47308-0792

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.

Please contact:
Mr. James L. Thrash
Senior Vice President
and Chief Financial Officer

First Merchants Corporation
P. O. Box 792
Muncie, Indiana 47308-0792
765-747-1390
1-800-262-4261 Ext. 1390

EXHIBIT 21--SUBSIDIARIES OF THE REGISTRANT

Name	State of Incorporation
First Merchants Bank, National Association	U.S.
Pendleton Banking Company	Indiana
First United Bank	Indiana
The Union County National Bank of Liberty	U.S.
The Randolph County Bank	Indiana

EXHIBIT 23--CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

- --

We hereby consent to the incorporation by reference to Registration Statements on Form S-8, File Number 33-28900 and 33-28901, of our report dated January 15, 1999, on the consolidated financial statements of First Merchants Corporation, which report is incorporated by reference in the Annual Report on Form 10-K of First Merchants Corporation.

/s/ Olive LLP

Indianapolis, Indiana
March 22, 1999

EXHIBIT 24 -- FORM 10-K, 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 James L. Thrash, 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 9, 1999

/s/ Stefan S. Anderson	/s/ Stefan S. Anderson
Stefan S. Anderson Officer	Stefan S. Anderson Director
/s/ James L. Thrash	/s/ Frank A. Bracken
James L. Thrash	Frank A. Bracken Director
	/s/ Thomas B. Clark
	Thomas B. Clark Director
	/s/ Michael L. Cox
	Michael L. Cox Director
	/s/ David A. Galliher
	David A. Galliher Director
	/s/ Norman M. Johnson
	Norman M. Johnson Director
	/s/ Ted J. Montgomery
	Ted J. Montgomery Director
	/s/ George A. Sissel
	George A. Sissel Director
	/s/ Robert M. Smitson
	Robert M. Smitson Director
	/s/ Michael D. Wickersham
	Michael D. Wickersham Director
	/s/ Dr. John E. Worthen
	Dr. John E. Worthen Director

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12-MOS
DEC-31-1998
JAN-01-1998
DEC-31-1998
33,908
855
37,315
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308,507
20,854
21,184
743,748
7,412
1,177,172
926,844
59,282
7,431
52,118
0
0
1,261
130,236
1,177,172
63,263
15,440
1,025
79,728
33,752
38,050
41,678
1,984
119
27,895
23,524
15,399
0
0
15,399
1.53
1.51
4.37
735
2,275
926
7,309
6,778
1,881
531
7,412
5,763
0
1,649

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

The annual financial statements and independent auditor's report thereon for First Merchants Corporation Employee Stock Purchase Plan for the year ending June 30, 1999, will be filed as an amendment to the 1998 Annual Report on Form 10-K no later than October 28, 1999.