FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 2001 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 (I.R.S. Employer
incorporation of organization) Identification No.)

200 East Jackson Street - Muncie, IN 47305-2814

(Address of principal executive office) (Zip
code)

(765) 747-1500

(Registrant's telephone number, including area code)

Not Applicable

(Former name former address and former fiscal year,
if changed since last report.)

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

As of April 30, there were 11,423,815 outstanding common shares, without par value, of the registrant.

The exhibit index appears on page 2.

This report including the cover page contains a total of 22 pages.

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX

		Page No.
PART I.	Financial information:	
Item 1.	Financial Statements:	
	Consolidated Condensed Balance Sheet	3
	Consolidated Condensed Statement of Income	4
	Consolidated Condensed Statement of Comprehensive Income	5
	Consolidated Condensed Statement of Stockholders' Equity	6
	Consolidated Condensed Statement of Cash Flows	7
	Notes to Consolidated Condensed Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	21
PART II. Other Information:		

Item 4.	Submission of Matters to a Vote of Security Holders	22
Item 6.	Exhibits and Reports of Form 8-K	22
Signatures		23

FIRST MERCHANTS CORPORATION

FORM 10-Q
PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED BALANCE SHEET
(Dollars in thousands, except per share amounts)
(Unaudited)

	March 31, 2001	December 31, 2000
ASSETS:		
Cash and due from banks	$ 22,194	$ 52,563
Federal funds sold	1,400	14,900
Cash and cash equivalents	23,594	67,463
Interest-bearing deposits.....................................	1,632	883
Investment securities available for sale	269,410	295,730
Investment securities held to maturity	10,013	12,233
Mortgage loans held for sale..................................	460	
Loans, net of allowance for loan losses of $12,727 and $12,454.	1,173,711	1,163,132
Premises and equipment	23,466	23,868
Federal Reserve and Federal Home Loan Bank Stock...............	7,185	7,185
Interest receivable	11,952	13,135
Core deposit intangibles and goodwill	20,574	21,055
Cash surrender value of life insurance.........................	6,287	6,312
Others assets	10,954	10,067
Total assets	$ 1,559,238	$ 1,621,063
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 130,124	$ 157,053
Interest-bearing	1,100,693	1,131,246
Total deposits	1,230,817	1,288,299
Borrowings	154,864	163,581
Interest payable	6,568	6,335
Other liabilities..	7,889	6,785
Total liabilities	1,400,138	1,465,000
STOCKHOLDERS' EQUITY:		
Perferred stock, no-par value:		
Authorized and unissued - 500,000 shares		
Common Stock, $.125 stated value:		
Authorized --- 50,000,000 shares		
Issued and outstanding - 11,554,677 and 11,611,732 shares....	1,445	1,451
Additional paid-in capital	40,487	41,665
Retained earnings	115,685	113,244
Accumulated other comprehensive income (loss)	1,483	(297)
Total stockholders' equity	159,100	156,063
Total liabilities and stockholders' equity .	$ 1,559,238	$ 1,621,063

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENT OF INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
Interest Income:		
Loans receivable		
Taxable	$ 25,190	$ 21,430
Tax exempt	92	72
Investment securities:		
Taxable	3,539	3,744
Tax exempt	1,027	1,142
Federal funds sold	89	51
Deposits with financial institutions	10	14
Federal Reserve and Federal Home Loan Bank stock	141	121
Total interest income	30,088	26,574
Interest expense:		
Deposits	12,701	10,903
Borrowings	2,698	2,398
Total interest expense	15,399	13,301
Net Interest Income	14,689	13,273
Provision for loan losses	653	479
Net Interest Income After Provision for Loan Losses	14,036	12,794
Other Income:		
Net realized losses on sales of available-for-sale securities		(198)
Other income	4,394	3,903
Total other income	4,394	3,705
Total other expenses	10,474	9,407
Income before income tax	7,957	7,092
Income tax expense	2,851	2,272
Net Income	$ 5,106	$ 4,820

	2001	2000
Per share:		
Diluted Cash Earnings(1)	$ .46	$ .44
Basic	.44	.44
Diluted	.44	.44
Dividends	.23	.22

(1) Net income excluding goodwill and core deposit intangible amortization.

See notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FIRST MERCHANTS CORPORATION

FORM 10-Q
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
Net Income	$ 5,106	$ 4,820
Other comprehensive income, net of tax:		
Unrealized (losses) gains on securities available for sale:		
Unrealized holding (losses) gains arising during the period, net of income tax of $1,187, and $461	1,781	(972)
Less: Reclassification adjustment for losses included in net income, net of income tax of $0 and $6		(118)
	1,781	(854)
Comprehensive income	$ 6,887	$ 3,966

FIRST MERCHANTS CORPORATION

FORM 10-Q

CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY

(Dollar Amounts in thousands)

(Unaudited)

	2001	2000
Balances, January 1	$ 156,063	$ 126,296
Net income	5,106	4,820
Cash dividends	(2,665)	(2,392)
Other comprehensive income (loss), net of tax...................	1,781	(854)
Stock issued under dividend reinvestment and stock purchase plan	210	192
Stock options exercised	20	322
Stock Redeemed	(1,415)	(3,596)
Balances, March 31	$ 159,100	$ 124,788

See notes to consolidated condensed financial statements

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended March 31, 2001	2000
Cash Flows From Operating Activities:		
Net income	$ 5,106	$ 4,820
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	653	479
Depreciation and amortization	1,207	758
Securities amortization, net	(79)	66
Securities losses, net		198
Gains on sale of premises and equipment		(105)
Mortgage loans originated for sale	(5,206)	240
Proceeds from sales of mortgage loans	4,746	(406)
Change in interest receivable	1,183	436
Change in interest payable	233	(515)
Other adjustments	(712)	1,886
Net cash provided by operating activities	$ 7,131	$ 7,857
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits	(749)	1,248
Purchases of		
Securities available for sale	(4,169)	
Proceeds from maturities of		
Securities available for sale	33,279	12,928
Securities held to maturity	2,244	
Proceeds from sales of		
Securities available for sale		2,312
Securities held to maturity		9,151
Net change in loans	(11,232)	(45,040)
Purchases of premises and equipment	(324)	(1,579)
Proceeds from sale of fixed assets		512
Net cash provided (used) by investing activities	19,049	(20,468)

(continued)

FIRST MERCHANTS CORPORATION

FORM 10-Q
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended March 31	
	2001	2000
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits	$ (26,929)	$ (2,525)
Certificates of deposit and other time deposits	(30,553)	(915)
Borrowings	(8,717)	(23,550)
Cash dividends	(2,665)	(2,392)
Stock issued under dividend reinvestment and stock purchase plan	210	192
Stock options exercised	20	322
Stock repurchased	(1,415)	(3,596)
Net cash provided (used) by financing activities	(70,049)	(32,464)
Net Change in Cash and Cash Equivalents	(43,869)	(45,075)
Cash and Cash Equivalents, January 1	67,463	84,293
Cash and Cash Equivalents, March 31	$ 23,594	$ 39,218

See notes to consolidated condensed financial statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1. General

The significant accounting policies followed by First Merchants Corporation ("Corporation") and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting, except for the change in method of accounting or adoption of accounting pronouncements discussed more fully in Note2. All adjustments which are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated condensed financial statements.

NOTE 2. 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 market 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 supercedes 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 was originally effective for all fiscal years beginning after June 15, 2000 and is not expected to have a material impact on the operations of the Corporation. The Statement may not be applied retroactively to financial statements of prior periods.

Statement No. 133 was adopted on July 1, 2000 and did not have a material impact on the operations of the Corporation.

NOTE 3. Business Combinations

On February 8, 2001, the Corporation signed a definitive agreement to acquire Francor Financial, Inc., Wabash, Indiana. The acquisition will be accounted for under the purchase method of accounting. Under the terms of the agreement, the Corporation will issue 1,191,000 shares of its common stock in exchange for all of the common stock of Francor Financial, Inc. The transaction is subject to approval by stockholders of Francor Financial, Inc., and appropriate regulatory agencies. The Corporation anticipates amortizing core deposit intangibles over eight years and goodwill over twenty years. As of December 31, 2000, Francor Financial, Inc., had total assets and shareholders' equity of $165,009,000 and $18,393,000 respectively.

(Table dollar amounts in thousands)

NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at March 31, 2001				
U.S. Treasury	$ 3,097	$ 8		$ 3,105
Federal agencies..................	36,902	517	$ 18	37,401
State and municipal	75,570	1,678	32	77,216
Mortgage-backed securities	132,711	649	116	133,244
Other asset-backed securities.....	10,481	102	10	10,573
Corporate obligations.............	6,983	53	354	6,682
Marketable equity securities......	1,317		128	1,189
Total available for sale	267,061	3,007	658	269,410
Held to maturity at March 31, 2001				
State and municipal...............	9,702	233		9,935
Mortgage-backed securities........	311			311
Total held to maturity	10,013	233		10,246
Total investment securities ..	$277,074	$ 3,240	$ 658	$279,656

(Table dollar amounts in thousands)

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

FIRST MERCHANTS CORPORATION

FORM 10-Q
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollar amounts in thousands)
(Unaudited)

NOTE 5. Loans and Allowance

	March 31, 2001	December 31, 2000
Loans:		
Commercial and industrial loans	$ 273,057	$ 258,405
Agricultural production financing and other loans to farmers	23,755	24,547
Real estate loans:		
Construction	48,044	45,412
Commercial and farmland	168,424	167,317
Residential	467,435	466,660
Individuals' loans for household and other personal expenditures	195,804	201,629
Tax-exempt loans	7,376	6,093
Other loans	2,543	5,523
	1,186,438	1,175,586
Allowance for loan losses	(12,727)	(12,454)
Total Loans	$ 1,173,711	$ 1,163,132

	Three Months Ended March 31 2001	2000
Allowance for loan losses:		
Balances, January 1	$ 12,454	$ 10,128
Provision for losses	653	479
Recoveries on loans	125	149
Loans charged off	(505)	(288)
Balances, March 31	$ 12,727	$ 10,468

NOTE 6. Net Income Per Share

	Three Months Ended March 31, 2001			2000		
	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	$ 5,106	11,598,378	$ .44	$ 4,820	10,904,050	$ .44
Effect of dilutive stock options		80,042			103,344	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions	5,106	11,678,420	$ .44	$ 4,820	11,007,394	$ .44

FIRST MERCHANTS CORPORATION

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Forward-Looking Statements

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

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

Results of Operations

Net income for the three months ended March 31, 2001, was $5,106,000, compared to $4,820,000 earned in the same period of 2000. Diluted earnings per share were $.44 equaling the $.44 reported for the first quarter 2000.

Cash basis earnings per share increased 4.5% to $.46 up $.02 from $.44 in 2000.

Annualized returns on average assets and average shareholder's equity for quarter ended March 31, 2001 were 1.28 percent and 13.03 percent, respectively, compared with 1.34 percent and 15.36 percent for the same period of 2000.

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 ration was 8.7 percent at year-end 2000 and 8.8 percent at March 31, 2001. At March 31, 2001, the Corporation had a Tier I risk-based capital ratio of 11.9 percent, total risk-based capital ratio of 13.0 percent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 percent and a total risk-based capital ratio of 8.0 percent. Banks with Tier I risk-based capital ratios of 6.0 percent and total risk-based capital ratios of 10.0 percent are considered "well capitalized."

Asset Quality/Provision for Loan Losses

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

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

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

The following table summarizes the risk elements for the Corporation.

(Dollars in Thousands)	March 31, 2001	December 31, 2000	December 31, 1999
Non-accrual loans	$2,939	$2,370	$1,280
Loans contractually past due 90 days Or more other than nonaccruing	2,964	2,465	2,327
Restructured loans	3,170	3,085	908
Total	$9,073	$7,920	$4,515

At December 31, 2000, non-performing loans totaled $7,920,000. As of December 31, 2000, impaired loans included in the table above totaled $1,900,000.

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. At December 31, 2000, impaired loans totaled $14,839,000. An allowance for losses was not deemed necessary for impaired loans totaling $6,977,000, but an allowance of $2,253,000 was recorded for the remaining balance of impaired loans of $7,862,000. The average balance of impaired loans for 2000 was $15,053,000.

At March 31, 2001, the allowance for loan losses increased by $273,000, to $12,727,000, up slightly from year end 2000. As a percent of loans, the allowance was 1.08 percent, up from 1.07 percent at year end 2000.

The first quarter 2001 provision of $653,000 was up $174,000 from $479,000 for the same quarter in 2000. Net charge offs amounted to $380,000 during the quarter.

	Three Months Ended March 31, 2001	2000
	(Dollars in Thousands)	
Balance at beginning of period	$12,454	$10,128
Chargeoffs	518	288
Recoveries	138	149
Net chargeoffs	380	139
Provision for loan losses	653	479
Balance at end of period	$12,727	$10,468
Ratio of net chargeoffs during the period to average loans outstanding during the period	.03(1)	.06%(1)

(1) First three months annualized

Liquidity, Interest Sensitivity, and Disclosures About Market Risk

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

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

The Corporation's liquidity and interest sensitivity position at March 31, 2001, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

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 base case (flat rates). Net Interest income is simulated over a 12-month horizon. By policy, the variance between rising rates and base case nor falling rates and base case can be more than a negative 5%.

Assumed interest rate changes are simulated to move immediate and parallel the rate movement to noteworthy interest rate indexes appear below:

	Rising	Falling
Prime	200 Basis Points	(200) Basis Points
Federal Funds	200	(200)
90 Day T-Bill	200	(200)
One Year T-Bill	200	(200)
Three Year T-Note	200	(200)
Five Year T-Note	200	(200)
Ten Year T-Note	200	(200)
Interest Checking	67	(67)
MMIA Savings	200	(200)
Money Market Index	200	(200)
Regular Savings	67	(67)

Results for the flat, rising (rate shock), and falling (rate shock) interest scenarios are listed below. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions are the same under all scenarios:

	Base Case Flat Rates	Rising	Falling
Net Interest Income (Dollars in Thousands)	$61,027	$59,570	$60,376
Change vs. Base Case		(1,457)	(651)
Percent Change		(2.39)%	(1.07)%
Policy Limitation		(5.00)%	(5.00)%

Earning Assets

The following table presents the earning asset mix as of March 31, 2001, and December 31, 2000, and December 31, 1999.

Loans grew by over $10.8 million from December 31, 2000, to March 31, 2001, while investment securities declined by $28.5 million during the same period. Commercial and industrial loans increased by more than $14.7 million, while individuals' loans for household and personal expenditures declined by nearly $5.8 million.

EARNING ASSETS (Dollars in Millions)	March 31, 2001	December 31, 2000	December 31, 1999
Federal funds sold and interest-bearing deposits	$ 3.0	$ 15.8	$ 27.1
Investment securities available for sale	269.4	295.7	329.7
Investment securities held to maturity	10.0	12.2	14.3
Mortgage loans held for sale	.5		
Loans	1,186.4	1,175.6	998.9
Federal Reserve and Federal Home Loan Bank stock	7.2	7.2	5.8
Total	$ 1,476.5	$ 1,506.5	$ 1,375.8

Deposits, Securities Sold Under Repurchase Agreements, Federal Funds Sold and Other Short-tern Borrowing

The following table presents the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements with customers, U.S. Treasury demand notes and Federal Home Loan Bank advances) for the years ended 1999 and 2000 and at March 31, 2001.

(Dollars in Millions)	March 31, 2001	December 31, 2000	December 31, 1999
Deposits	$ 1,230.8	$ 1,288.3	$ 1,147.2
Securities sold under repurchase agreements......	64.6	64.5	78.0
Other short-term borrowings	.9	5.9	38.4
Federal Home Loan Bank advances	89.4	93.2	73.5

The Corporation has continued to leverage its large capital position with Federal Home Loan Bank advances, as well as, repurchase agreements which are pledged against acquired investment securities as collateral for the borrowings. The interest rate risk is included as part of the Corporation's interest simulation discussed in Management's Discussion and Analysis under the heading Liquidity, Interest Sensitivity, and Disclosures about Market Risk. The effect on the Corporation" capital ratios is minimal as the Corporation remains adequately capitalized.

Net Interest Income

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

The table below presents the Corporation's asset yields, interest expense, and net interest income as a percent of average earning assets for the three months ended March 31, 2001 and 2000.

Annualized net interest income (FTE) for the three months ended March 31, 2001 increased by $5,433,000, or 9.8 percent over the same period in 2000, due to an increase in average earning assets of over $122 million. For the same period interest income and interest expense, as a percent of average earning assets, increased 28 basis points, 24 basis points respectively, due to increased interest rates and increased non-deposit funding.

(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	Annualized Net Interest Income On a Fully Taxable Equivalent Basis
For the three months Ended March 31,					
2001	8.23%	4.13%	4.10%	$1,491,338	$61,173
2000	7.95%	3.89%	4.06%	$1,369,343	$55,740

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 the first quarter of 2001 exceeded the same quarter in the prior year by $491,000, or 12.6 percent.

Two major areas account for most of the increase:

1. Service charges on deposit accounts increased $159,000 or 14.5 percent due to increased number of accounts and price adjustments.

2. Revenues from Fiduciary activities increased $152,000 or 12.9 percent due primarily to increased sales efforts of First Merchants Insurance Services, Inc.

Other Expense

Total other expenses represent non-interest operating expenses of the Corporation. First quarter other expense in 2001 exceeded the same quarter of the prior year by $1,067,000, or 11.3 percent.

Two major areas account for most of the increase:

1. Salaries and benefit expense grew $630,000 or 12.0 percent, due to normal salary increases and staff additions.

2. Goodwill amortization increased by $314,000, due to utilization of the purchase method of accounting for the Corporations June 1, 2000 acquisition of Decatur Bank & Trust Company.

Income Taxes

Income tax expense, for the three months ended March 31, 2001, increased by $579,000 over the same period in 2000.

Other

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 6. Exhibits and Reports on Form 8-K

Form 8-K was filed on April 19, 2001 to disclose the repurchase of 118,088 shares of First Merchants Corporation's common stock.

FIRST MERCHANTS CORPORATION

FORM 10-Q

SIGNATURES

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

First Merchants Corporation

(Registrant)

Date May 14, 2001

by /s/Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

Date May 14, 2001

by /s/James L. Thrash

James L. Thrash
Chief Financial & Principal
Accounting Officer