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, 1997 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 $253,638,448 as of March 2, 1998.

As of March 2, 1998 there were outstanding 6,674,696 common shares, without par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Part of Form 10-K Into Which Incorporated
1997 Annual Report to Stockholders	Part II (Items 5, 6, 7, and 8)
Definitive Proxy Statement for Annual Meeting of Shareholders to be held April 7, 1998	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 National"), 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.

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, 1997, the Corporation had consolidated assets of $1.020 billion, consolidated deposits of $843.8 million and stockholders' equity of $122.0 million.

The Corporation is headquartered in Muncie, Indiana, and is presently engaged in conducting commercial banking business through the 24 offices of its five banking subsidiaries. As of December 31, 1997, the Corporation and its subsidiaries had 462 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 is not actively engaged in discussions or negotiations with other financial institutions regarding their affiliation with the Corporation.

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COMPETITION

The Corporation's banking subsidiaries are located in Delaware, Madison, Fayette, Wayne, Union, Randolph and Henry counties, Indiana. 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 National 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 National, 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, 1997, 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, 1997, 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, 1997:

	Corporation's Consolidated Ratio	Regulatory Minimum Requirement
Tier 1 Capital to Risk-Weighted Assets Ratio	16.9%	4.0%
Total Capital to Risk-Weighted Assets Ratio	17.9%	8.0%

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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.

	1997			1996			1995		
	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	$ 3,127	$ 172	5.5%	$ 9,359	$ 498	5.3%	$ 18,409	$ 1,028	5.6%
Interest-bearing deposits.	693	34	4.9	346	16	4.6	250	9	3.6
Federal Reserve and Federal Home Loan Bank stock.	3,144	242	7.7	2,800	212	7.6	2,692	209	7.8
Securities:(1)									
Taxable.	172,993	10,818	6.3	204,323	12,752	6.2	206,724	12,419	6.0
Tax-exempt	86,568	6,647	7.7	77,996	5,892	7.6	72,666	5,542	7.6
Total Securities	259,561	17,465	6.7	282,319	18,644	6.6	279,390	17,961	6.4
Mortgage loans held for sale	406	47	11.6	262	21	8.0	281	22	7.8
Loans:(2)									
Commercial	272,483	25,125	9.2	230,848	21,232	9.2	211,998	20,347	9.6
Bankers' acceptance and commercial paper purchased	1,193	68	5.7	20	1	5.5	2,590	149	5.8
Real estate mortgage	258,499	21,430	8.3	233,830	19,543	8.4	218,607	18,566	8.5
Installment.	141,290	13,103	9.3	119,379	11,300	9.5	109,917	9,997	9.1
Tax-exempt	2,021	178	8.8	1,566	140	8.9	1,064	112	10.5
Total loans.	675,486	59,904	8.9	585,643	52,216	8.9	544,176	49,171	9.0
Total earning assets	942,417	77,864	8.3	880,729	71,607	8.1	845,198	68,400	8.1
Net unrealized loss on securities available for sale	1,273			961			1,483		
Allowance for loan losses.	(6,761)			(6,672)			(6,654)		
Cash and due from banks.	30,647			28,341			26,359		
Premises and equipment	14,950			14,879			14,225		
Other assets	10,812			13,906			10,384		
Total assets	$993,338			$932,144			$890,995		
Liabilities:									
Interest-bearing deposits:									
NOW accounts.	$104,620	$ 2,450	2.3	$109,792	$ 2,503	2.3	$103,015	$ 2,643	2.6
Money market deposit accounts	105,628	4,188	4.0	100,897	3,701	3.7	107,735	4,147	3.8
Savings deposits.	69,633	1,740	2.5	70,875	1,898	2.7	74,293	2,125	2.9
Certificates and other time deposits. . . .	425,478	23,542	5.5	381,378	21,037	5.5	355,448	19,312	5.4
Total interest-bearing deposits.	705,359	31,920	4.5	662,942	29,139	4.4	640,491	28,227	4.4
Short-term borrowings	53,185	2,856	5.4	51,768	2,687	5.2	47,345	2,628	5.6
Federal Home Loan Bank advances	15,455	949	6.1	9,192	523	5.7	9,000	496	5.5
Total interest-bearing liabilities	773,999	35,725	4.6	723,902	32,349	4.5	696,836	31,351	4.5
Noninterest-bearing deposits.	94,759			90,719			88,335		
Other liabilities	7,566			9,429			6,791		
Total liabilities.	876,324			824,050			791,962		
Stockholders' equity.	117,014			108,094			99,033		
Total liabilities and stockholders' equity	$993,338	35,725	3.8(3)	$932,144	32,349	3.6(3)	$890,995	31,351	3.7(3)
Net interest income.		$42,139	4.5		$39,258	4.5		$37,049	4.4

(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

	1997	1996	1995
Adjustment to convert tax exempt investment securities to fully taxable equivalent basis, using marginal rate of 35% for 1995, 1996, and 1997.	$ 2,389	$ 2,111	$ 1,952

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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.

	1997 Compared to 1996 Increase (Decrease) Due To			1996 Compared to 1995 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in Thousands on Fully Taxable Equivalent Basis)					
Interest income:						
Federal funds sold	$(343)	$ 17	$ (326)	$ (478)	$ (52)	$ (530)
Interest-bearing deposits	17	1	18	4	3	7
Federal Reserve and Federal Home Loan Bank stock	26	4	30	8	(5)	3
Securities	(1,461)	282	(1,179)	171	512	683
Mortgage loans held for sale	14	12	26	(2)	1	(1)
Loans	7,966	(278)	7,688	3,607	(562)	3,045
Totals	6,219	38	6,257	3,310	(103)	3,207
Interest expense:						
NOW accounts	(126)	73	(53)	173	(313)	(140)
Money market deposit accounts	179	308	487	(315)	(131)	(446)
Savings deposits	(33)	(125)	(158)	(91)	(136)	(227)
Certificates and other time deposits	2,440	65	2,505	1,376	349	1,725
Short-term borrowings	(3)	172	169	248	(189)	59
Federal Home Loan Bank advances	382	44	426	10	17	27
Totals	2,839	537	3,376	1,401	(403)	998
Change in net interest income (fully taxable equivalent basis)	$ 3,380	$ (499)	2,881	$1,909	$ 300	2,209
Tax equivalent adjustment using marginal rate of 35% for 1995, 1996, and 1997			(278)			(159)
Change in net interest income			$2,603			$2,050

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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, 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
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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 1995:				
U.S. Treasury	$ 16,239	$ 184	$ 11	$ 16,412
Federal agencies	84,047	1,529	93	85,483
State and municipal	40,391	1,257	68	41,580
Mortgage-backed securities	47,012	411	282	47,141
Other asset-backed securities	433		1	432
Corporate obligations	34,114	289	106	34,297
Marketable equity securities	562	31		593
Total available for sale	222,798	3,701	561	225,938
Held to maturity at December 31, 1995:				
U.S. Treasury	3,103	8	2	3,109
Federal agencies	11,645	69	21	11,693
State and municipal	40,393	574	57	40,910
Mortgage-backed securities	4,563	9	21	4,551
Other asset-backed securities	474	8		482
Corporate obligations	500		1	499
Total held to maturity	60,678	668	102	61,244
Total investment securities	$ 283,476	$4,369	$ 663	$ 287,182

	Cost		
	1997	1996	1995
Federal Reserve and Federal Home Loan Bank stock at December 31:			
Federal Reserve Bank stock	$ 397	$ 397	$ 397
Federal Home Loan Bank stock	2,976	2,693	2,305
Total	$ 3,373	$ 3,090	$ 2,702

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, 1997 were:

Securities available for sale December 31, 1997:

	Within 1 Year		1-5 Years		5 - 10 Years	
	Amount	Yield*	Amount	Yield*	Amount	Yield*
U.S. Treasury	$ 3,242	5.77%	$ 15,965	6.00%		
Federal Agencies	15,327	6.62	51,456	6.27		
State and Municipal	6,461	4.07	26,900	4.65	$ 33,590	4.64%
Corporate Obligations	9,596	5.90	8,623	6.13		
Total	$ 34,626	5.88%	$ 102,944	5.79%	$ 33,590	4.64%

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STATISTICAL DATA (continued)

	Due After Ten Years Amount	Due After Ten Years Yield*	Marketable Equity, Mortgage and Other Asset-Backed Securities Amount	Marketable Equity, Mortgage and Other Asset-Backed Securities Yield*	Total Amount	Total Yield*
U.S. Treasury.					$ 19,207	5.96%
Federal Agencies					66,783	6.35
State and Municipal.	$ 891	6.14%			67,842	4.61
Corporate Obligations.					18,219	6.01
Marketable Equity Security . . .			250	7.90%	250	7.90
Mortgage-backed securities . . .			$ 36,682	6.37	36,682	6.37
Other asset-backed securities. .			487	7.00	487	7.00
Total.	$ 891	6.14%	$ 37,419	6.39%	$ 209,470	5.73%

Securities held to maturity at December 31, 1997:

	Within 1 Year Amount	Within 1 Year Yield*	1-5 Years Amount	1-5 Years Yield*	5 - 10 Years Amount	5 - 10 Years Yield*
U.S. Treasury.			$ 249	5.36%		
Federal Agencies	$ 2,912	6.42%	500	6.17		
State and Municipal.	8,588	4.88	14,824	4.72	$ 2,264	4.99%
Total	$ 11,500	5.27%	$ 15,573	4.77%	$ 2,264	4.99%

	Due After Ten Years Amount	Due After Ten Years Yield*	Mortgage and other asset-backed Amount	Mortgage and other asset-backed Yield*	Total Amount	Total Yield*
U.S. Treasury.					$ 249	5.36%
Federal Agencies					3,412	6.38
State and Municipal.					26,206	4.82
Mortgage-backed securities . . .			$ 1,255	6.59%	1,255	6.59
Other asset-backed securities. .	$ 530	5.86%	4,210	7.05	4,210	7.05
Total.	$ 530	5.86%	$ 5,465	6.95%	$ 35,332	5.30%

*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, 1997:

	Amount	Yield
Federal Reserve Bank stock	$ 397	6.00%
Federal Home Loan Bank stock	2,976	8.00
Total.	$ 3,373	7.76%

STATISTICAL DATA (continued)

LOAN PORTFOLIO

TYPES OF LOANS

The loan portfolio at the dates indicated is presented below:

	1997	1996	1995	1994	1993
	(Dollars in Thousands)				
Loans at December 31:					
Commercial and industrial loans	$ 148,281	$ 132,134	$ 98,880	$ 89,696	$ 90,192
Bankers acceptances and loans to financial institutions	705	625	2,925		3,293
Agricultural production financing and other loans to farmers	16,764	18,906	17,203	17,255	16,470
Real estate loans:					
Construction	21,389	13,167	9,913	8,126	8,127
Commercial and farmland	97,503	97,596	104,731	95,092	85,992
Residential	287,072	253,530	215,738	217,148	196,570
Individuals' loans for household and other personal expenditures	125,706	113,507	102,313	99,812	91,277
Tax-exempt loans	2,598	1,643	1,204	1,514	2,029
Other loans	3,782	1,672	949	1,608	3,350
	703,800	632,780	553,856	530,251	497,300
Unearned interest on loans	(487)	(1,364)	(1,518)	(1,610)	(1,597)
Total loans	$ 703,313	$ 631,416	$ 552,338	$ 528,641	$ 495,703

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

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

Presented in the table below are the maturities of loans (excluding commercial real estate, farmland, residential real estate and individuals' loans) outstanding as of December 31, 1997. 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	$ 61,858	$ 42,869	$ 43,554	$148,281
Agricultural production financing and other loans to farmers	13,498	2,711	555	16,764
Real estate - Construction	9,122	3,742	8,525	21,389
Tax-exempt loans	477	438	1,683	2,598
Other loans	3,504	184	94	3,782
Total	$ 88,459	$ 49,944	$ 54,411	$192,814

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STATISTICAL DATA (continued)

	Maturing 1 - 5 Years	Maturing Over 5 Years
	(Dollars in Thousands)	
Loans maturing after one year with:		
Fixed rates	$ 13,677	$ 26,736
Variable rate	36,267	27,675
Total	$ 49,944	$ 54,411

RISK ELEMENTS

	December 31 1997	1996	1995	1994	1993
	(Dollars in Thousands)				
Nonaccruing loans	$ 1,410	$ 2,777	$ 576	$ 398	$ 1,649
Loans contractually past due 90 days or more other than nonaccruing	1,972	1,699	1,119	1,322	936
Restructured loans	282	1,540	1,075	1,242	1,509

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 $180,280 for the year ended December 31, 1997, was recognized on the nonaccruing and restructured loans listed in the table above, whereas interest income of $296,759 would have been recognized under their original loan terms.

Potential problem loans:

Management has identified certain other loans totaling $7,880,846 as of December 31, 1997, not included in the risk elements table, which are current as to principal and interest, 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.

	1997	1996	1995	1994	1993
	(Dollars in Thousands)				
Allowance for loan losses:					
Balance at January 1	$ 6,622	$ 6,696	$ 6,603	$ 6,467	$ 5,811
Chargeoffs:					
Commercial	443	767	794	973	675
Real estate mortgage	31	14	1	53	129
Installment	1,135	855	759	462	571
Total chargeoffs	1,609	1,636	1,554	1,488	1,375
Recoveries:					
Commercial	264	106	127	269	248
Real estate mortgage	1	7	4	30	5
Installment	203	196	128	123	124
Total recoveries	468	309	259	422	377
Net chargeoffs	1,141	1,327	1,295	1,066	998
Provisions for loan losses	1,297	1,253	1,388	1,202	1,654
Balance at December 31	$ 6,778	$ 6,622	$ 6,696	$ 6,603	$ 6,467
Ratio of net chargeoffs during the period to average loans outstanding during the period	.17%	.23%	.24%	.21%	.21%
Peer Group	N/A	.26%	.26%	.25%	.49%

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STATISTICAL DATA (continued)

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES AT DECEMBER 31:

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

	1997 Amount	1997 Per Cent	1996 Amount	1996 Per Cent
	(Dollars in Thousands)			
Balance at December 31:				
Commercial, financial and agricultural	$ 2,594	23.6%	$ 2,924	24.2%
Real estate - construction	3	3.0	3	2.1
Real estate - mortgage	1,061	54.7	1,041	55.6
Installment.	1,702	18.3	1,576	17.8
Tax-exempt loans	4	.4	16	.3
Unallocated.	1,414	N/A	1,062	N/A
Totals	$ 6,778	100.0%	$ 6,622	100.0%

	1995 Amount	1995 Per Cent	1994 Amount	1994 Per Cent
	(Dollars in Thousands)			
Balance at December 31:				
Commercial, financial and agricultural	$ 3,105	21.8%	$ 3,080	20.5%
Real estate - construction	1	1.8	4	1.5
Real estate - mortgage	1,121	58.0	1,048	59.1
Installment.	1,506	18.2	1,550	18.6
Tax-exempt loans	4	.2	4	.3
Unallocated.	959	N/A	917	N/A
Totals	$ 6,696	100.0%	$ 6,603	100.0%

	1993 Amount	1993 Per Cent
	(Dollars in Thousands)	
Balance at December 31:		
Commercial, financial and agricultural	$ 3,021	22.9%
Real estate - construction	6	1.6
Real estate - mortgage	870	57.0
Installment.	1,589	18.1
Tax-exempt loans	7	.4
Unallocated.	974	N/A
Totals	$ 6,467	100.0%

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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:

	1997	1996	1995
	(Dollars in Thousands)		
For the year ending December 31:			
Impaired loans with an allowance	$ 1,476	$ 3,124	$ 2,314
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	1,075	868	2,498
Total impaired loans	$ 2,551	$ 3,992	$ 4,812
Allowance for impaired loans (included in the Corporation's allowance for loan losses) . . .	$ 407	$ 1,092	$ 1,177
Average balance of impaired loans.	3,414	5,213	4,650
Interest income recognized on impaired loans . .	180	311	153
Cash basis interest included above	162	291	93

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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.

	1997		1996		1995	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in Thousands)					
Balance at December 31:						
Noninterest bearing deposits	$ 94,759		$ 90,719		$ 88,335	
NOW accounts	104,620	2.3%	109,792	2.3%	103,015	2.6%
Money market deposit accounts.	105,628	4.0	100,897	3.7	107,735	3.8
Savings deposits	69,633	2.5	70,875	2.7	74,293	2.9
Certificates of deposit and other time deposits.	425,478	5.5	381,378	5.5	355,448	5.4
Total deposits.	$800,118	4.0	$753,661	3.9	$728,826	3.9

As of December 31, 1997, 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	$51,373	$11,708	$19,766	$21,255	$104,102
Per cent.	49%	11%	19%	21%	100%

RETURN ON EQUITY AND ASSETS

	1997	1996	1995
Return on assets (net income divided by average total assets)	1.45%	1.41%	1.35%
Return on equity (net income divided by average equity).	12.28	12.16	12.17
Dividend payout ratio (dividends per share divided by net income per share) . . .	47.93	40.85	39.49
Equity to assets ratio (average equity divided by average total assets)	11.78	11.60	11.11

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STATISTICAL DATA (continued)

SHORT-TERM BORROWINGS

	1997	1996	1995
	(Dollars in Thousands)		
Balance at December 31:			
Federal funds purchased	$ 4,070	$ 20,725	$ 1,700
Securities sold under repurchase agreements	15,398	20,054	28,887
U.S. Treasury demand notes.	7,361	4,258	6,790
Total short-term borrowings	$ 26,829	$ 45,037	$ 37,377

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:

	1997	1996	1995
	(Dollars in Thousands)		
Weighted average interest rate on outstanding balance at December 31:			
Securities sold under repurchase agreements	5.13%	4.92%	5.26%
Total short-term borrowings	5.38	5.78	5.28
Weighted average interest rate during the year:			
Securities sold under repurchase agreements	4.99	5.07	5.52
Total short-term borrowings	5.36	5.19	5.55
Highest amount outstanding at any month end during the year:			
Securities sold under repurchase agreements	$49,750	$52,221	$58,097
Total short-term borrowings	84,860	83,678	65,514
Average amount outstanding during the year:			
Securities sold under repurchase agreements	31,327	42,140	35,436
Total short-term borrowings	53,185	51,768	47,345

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 National 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, 1997 was $15,382,400.

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 1997 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 63	Chairman of the Board, President and 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; President and Chief Executive Officer of the Corporation since 1982, and Chief Executive Officer of First Merchants Bank since 1979
Michael L. Cox 53	Executive Vice President, Chief Operating Officer and Director, Corporation; President, Chief Operating Officer and Director, First Merchants Bank, N.A.	Executive Vice President and Chief Operating Officer, Corporation since May, 1994; 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 57	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 58	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 48	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 49 of the Corporation's 1997 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 21 of the Corporation's 1997 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 22 through 27 of the Corporation's 1997 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

It is the objective of First Merchants 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 on a quarterly basis.

The GAP/Interest Rate Sensitive Report is a tool which displays repricing timing differences between interest sensitive assets and liabilities. The Corporation elects to categorize its non-maturity deposits as all to reprice in 13 months. The FMC 181-365 day Sensitivity Gap Ratio depicts the institution is asset sensitive (107.8%). See Interest-Rate Sensitivity Analysis below:

INTEREST-RATE SENSITIVITY ANALYSIS
(Dollars in Thousands)

	At December 31, 1997				
	1-180 DAYS	181-365 DAYS	1-5 YEARS	BEYOND 5 YEARS	TOTAL
Rate-Sensitive Assets:					
Federal funds sold and interest bearing deposits	$ 9,435				$ 9,435
Investment Securities.	52,680	$ 34,688	$122,966	$ 37,038	247,372
Loans.	302,943	71,869	263,440	65,532	703,784
Federal Reserve and Federal Home Loan Bank stock.	2,976			397	3,373
Total rate-sensitive assets	368,034	106,557	386,406	102,967	963,964
Rate-Sensitive Liabilities:					
Interest-bearing deposits.	304,651	102,033	320,727	788	728,199
Borrowed funds	26,829				26,829
Federal Home Loan Bank advances.	2,294	4,294	9,278	4,834	20,700
Total rate-sensitive liabilities. . . .	333,774	106,327	330,005	5,622	775,728
Interest rate sensitivity gap by period .	$ 34,260	$ 230	$ 56,401	$ 97,345	
Cumulative rate sensitivity gap	34,260	34,490	90,891	188,236	
Cumulative rate sensitivity gap ratio at December 31, 1997.	110.3%	107.8%	111.8%	124.3%	

The Corporation had a cumulative positive gap of $34,490,000 in the one year horizon at December 31, 1997, or just over 3 percent of total assets. Net interest income at financial institutions with positive gaps tends to increase when rates increase and decrease as interest rates decline.

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 simulation modeling product used by the Corporation is a personal computer based system known as Asset Liability Model System (ALMS) supported by Alltel, Inc., of Little Rock, AK. The system provides software sophisticated enough to measure; basis risk, yield curve risk, option risk, and interest rate risk. More specifically the software considers yield curve changes, prepayment speeds, caps, floors and allows the user to tie different products to different interest rate drivers which can be assumed to change at different speeds and magnitudes.

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 10%.

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

	Rising	Falling
Prime	300 Basis Points	(300) Basis Points
Federal Funds	300	(300)
90 Day T-Bill	320	(275)
One Year T-Bill	290	(255)
Three Year T-Note	275	(235)
Five Year T-Note	265	(215)
Ten Year T-Note	260	(195)
Interest Checking	100	(60)
MMIA Savings	140	(100)
Money Market Index	300	(300)
Regular Savings	100	(60)

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)	$ 60,359	$ 59,423	$ 60,130
Change vs. Flat/Base Scenario		(936)	(229)
% Change		(1.58)%	(0.38)%

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and supplementary data required under this item are incorporated herein by reference to page 20 and pages 28 through 46 of the Corporation's 1997 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, 1997, 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 1998 Proxy Statement furnished to its stockholders in connection with an annual meeting to be held April 7, 1998 (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 1998 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 1998 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 1998 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.

(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.
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.

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

EXHIBIT NO:	DESCRIPTION OF EXHIBIT:
13	1997 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, 1997
99.1	Financial statements and independent auditor's report for First Merchants Corporation Employee Stock Purchase Plan

(b) Reports on Form 8-K:

None were filed during 1997.

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 19th day of March, 1998.

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 19, 1998
/s/ James L. Thrash James L. Thrash	Principal Financial and Principal Accounting Officer	March 19, 1998
/s/ Michael L. Cox Michael L. Cox	Director	March 19, 1998
Frank A. Bracken	Director	
/s/ Thomas B. Clark Thomas B. Clark	Director	March 19, 1998
David A. Galliher	Director	
Norman M. Johnson	Director	
/s/ Ted J. Montgomery Ted J. Montgomery	Director	March 19, 1998
/s/ George A. Sissel George A. Sissel	Director	March 19, 1998

Signature	Capacity	Date
------------------------------ Robert M. Smitson	Director	
------------------------------ Michael D. Wickersham	Director	
/s/ John E. Worthen ------------------------------ John E. Worthen	Director	March 19, 1998

INDEX TO EXHIBITS

(a)3. Exhibits:

EXHIBIT NO:	DESCRIPTION OF EXHIBIT:
10.7	First Merchants Corporation Supplemental Executive Retirement Plan and Amendments thereto
13	1997 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, 1997
99.1	Financial statements and independent auditor's report for First Merchants Corporation Employee Stock Purchase Plan

FIRST MERCHANTS CORPORATION
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

SECTION 1. ESTABLISHMENT AND PURPOSE

A. Establishment. First Merchants Corporation (the "Employer"), hereby establishes a non-qualified supplemental executive retirement plan for certain executives, as designated and described herein, which shall be known as the FIRST MERCHANTS CORPORATION SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (the "Plan").

B. Purpose. The purpose of the Plan is to enable the Employer to attract, retain, and motivate key executive employees of high caliber, and to provide equitable retirement and survivor benefits for certain key executive employees, their surviving spouses and designated beneficiaries.

SECTION 2. DEFINITIONS

For purposes of this Plan, certain words or phrases used herein will have the following meanings:

A. "Board of Directors" means the Board of Directors of First Merchants Corporation.

B. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

C. "Compensation Committee" means the Employer's Compensation and Human Resources Committee.

D. "Executive" means a key executive Employee that is designated to participate in the Plan under Section 3 below.

E. "Non-qualified SERP Benefit" means the difference between (1) and (2), where (1) is the Retirement Benefit that would have been paid the Executive from the Pension Plan at the Executive's Normal, Late or Disability Retirement Date (whichever is applicable) if there were no compensation limit imposed under Code Section 401(a)(17) and if Final Average Monthly Plan Compensation did not exclude bonuses for purposes of determining the Standard Benefit Formula, and (2) is the Retirement Benefit payable to the Executive under the Pension Plan at the Executive's Normal, Late or Disability Retirement Date (whichever is applicable).

F. "Pension Plan" means the First Merchants Corporation Retirement Pension Plan, as amended, a qualified pension plan under Section 401(a) of the Internal Revenue Code of 1986, as amended.

G. "Term Certain Expiration Date" means the 15th anniversary of the event, retirement or death, which causes payment of benefits under this Plan to commence, unless the Compensation Committee establishes a different Term Certain Expiration Date for a covered Executive at the time it designates such Executive to participate in the Plan.

H. The following terms will have the same meanings as they have under the Pension Plan: "Employee," "Employer," "Final Average Monthly Plan Compensation," "Normal, Early, Late, or Disability Retirement Date," "Retirement Benefit," "Normal, Early, Late, or Disability Retirement Benefit," and "Standard Benefit Formula."

SECTION 3. DESIGNATION OF EXECUTIVES PARTICIPATING IN PLAN

The Compensation Committee shall have the sole discretion, from time to time, to designate Employees to participate in the Plan as covered Executives. This designation shall be by resolution of the Compensation Committee and shall be limited to management or highly compensated Employees. The Compensation Committee shall notify each Employee so designated in writing. Covered Executives, their spouses and designated beneficiaries shall become entitled to benefits under this Plan if the Executive is employed by the Employer on his or her 65th birthday (unless the Compensation Committee, at the time it designates a covered Executive to participate in the Plan, establishes a different minimum age as of which such Executive shall become entitled to such benefits), Disability Retirement Date or death, whichever occurs earliest.

SECTION 4. RETIREMENT BENEFIT

If an Executive retires on his or her Normal, Late or Disability Retirement Date, the Executive shall receive each year thereafter (unless the Compensation Committee provides for a different benefit commencement date for a covered Executive at the time it designates such Executive to participate in the Plan), in the manner described in Section 6, an amount equal to the Non-qualified SERP Benefit for the Executive's lifetime. If the Executive's Retirement Benefit under the Pension Plan commences at a time other than his or her Normal Retirement Date, the amount of the Non-qualified SERP Benefit shall be adjusted using the same actuarial factors and assumptions (except as otherwise provided in Section 7 of this Plan) used to calculate the Retirement Benefit payable to the Executive under the Pension Plan.

SECTION 5. PRE-RETIREMENT SURVIVOR BENEFIT

If a covered Executive dies while still actively employed by the Employer, and if the Executive is survived by the Executive's spouse, the Executive's spouse shall receive each year until the Term Certain Expiration Date, in the manner described in Section 6, the Non-qualified SERP Benefit otherwise payable to the Executive under this Plan, determined as if the Executive had retired on the date immediately preceding the date of the Executive's death. In determining this Benefit, the Executive shall be deemed to be vested under the Pension Plan and not to have waived the death benefit coverage under the Pension Plan (whether or not that is actually true). If the Executive is not survived by the Executive's spouse, or if the spouse does not live until the Term Certain Expiration

Date, the person(s) designated under Section 8 shall receive each year, in the manner described in Section 6, an amount equal to such Benefit.

SECTION 6. MANNER OF PAYING BENEFITS

Within 30 days following the retirement of the Executive, or, if Section 5 applies, within 30 days following the death of the Executive, payment of a monthly benefit shall commence to the covered Executive, or to the Executive's spouse or designated beneficiary, equal to the benefit described in Section 4 or 5 of this Plan, whichever applies.

SECTION 7. TERM CERTAIN

Benefits on behalf of a covered Executive, whether payable as a Normal, Late, or Disability Retirement Benefit, or as a survivor benefit or other death benefit payable to a spouse or designated beneficiary, shall be made at least through the Term Certain Expiration Date, without any actuarial reduction on account of such guaranteed payment. At any time, in the discretion of the Compensation Committee, the computed value of the future benefits payable under the Plan to a surviving spouse or designated beneficiary as a guaranteed Term Certain payment, or as a survivor benefit or other death benefit may be computed and paid in one lump sum.

SECTION 8. DESIGNATION OF BENEFICIARY

An Executive, or subsequent to the Executive's death, the Executive's spouse, may designate the person(s) to receive the benefits payable under this Plan if the Executive and the Executive's spouse do not live to receive the benefits through the Term Certain Expiration Date. If such designation is not made, or if no designated beneficiary is then living, such benefit shall be paid to the Executive's spouse, if then living, or if not, to the Executive's descendants, PER STIRPES, who are then living, or if there are no such descendants then living, to the Executive's estate.

SECTION 9. EARLY, LATE OR DISABILITY RETIREMENT

The Compensation Committee may grant to a covered Executive, while in the employ of the Employer, early, late or disability retirement under this Plan, if such Executive is eligible for and elects an Early, Late or Disability Retirement Benefit under the Pension Plan. The Compensation Committee, in its sole discretion, may provide that retirement benefits under this Plan shall begin at any time after the granting of early, late or disability retirement, rather than at the Executive's Normal Retirement Date, and the Term Certain Expiration Date shall terminate on the 15th anniversary of the commencement of retirement benefits (or, if the Compensation Committee established a different Term Certain Expiration Date for the covered Executive at the time it designated such Executive to participate in the Plan, such anniversary which corresponds to the number of years for which payment is guaranteed).

SECTION 10. TERMINATION OF EMPLOYMENT

If an Executive's employment with the Employer is terminated prior to his or her 65th birthday (or such other minimum age established by the Compensation Committee at the time it designates such Executive to participate in the Plan, as of which such Executive shall become entitled to benefits hereunder), either by the Employer or by the Executive, and either with or without cause, no benefits shall be paid under any provision of this Plan, unless the Compensation Committee, in its sole discretion, shall provide that the benefits will be paid regardless of the termination of the Executive's employment. However, disability retirement or death shall not be deemed to be a termination of employment for purposes of this Section.

SECTION 11. PROHIBITION OF COMPETITIVE EMPLOYMENT

If, during the period of an Executive's employment with the Employer or while the Executive is receiving benefits under this Plan, a covered Executive engages in competitive activities without the Employer's written consent, no further benefits shall be payable under any provision of this Plan. For purposes of this Section, "competitive activities" shall mean engaging, directly or indirectly (including providing consulting services), in a business similar to any business of the Employer or any of its subsidiaries, or owning, managing, operating, controlling, being employed by, participating in, having any financial interest in, or being connected in any manner with the ownership, management, operation or conduct of, any such similar business.

SECTION 12. TITLE TO LIFE INSURANCE

If life insurance is purchased to provide the Employer with funds to make benefit payments under this Plan to or on behalf of a covered Executive, the owner and beneficiary of such life insurance contract shall at all times be the Employer or, if the Employer establishes a "rabbi trust" in connection with this Plan, the trustee of such trust. If the Employer is the owner and beneficiary of the life insurance contract, it shall have the unrestricted right to use all amounts and to exercise all options and privileges thereunder without the knowledge or consent of the Executive, his or her designated beneficiary, or any other person, it being expressly agreed that neither the Executive nor any such beneficiary or other person shall have any right, title or interest whatsoever in or to any such contract. If the trustee of a "rabbi trust" is the owner and beneficiary of the life insurance contract, the respective rights and interests of the Employer, the trustee, the Executive, his or her designated beneficiary, and other persons, shall be governed by the terms of the trust agreement and the life insurance contract.

SECTION 13. PAYMENTS ARE NOT SECURED

Except as provided in the "rabbi trust" agreement, if any, established by the Employer in connection with this Plan, (a) the Executive, his or her designated beneficiary and any other person or persons having or claiming a right to payment of benefits hereunder, or to any interest under this Plan, shall rely solely on the unsecured promise of the Employer, and (b) nothing herein shall be construed to give the Executive, his or her designated beneficiary or any other person or persons any right, title, interest or claim in or to any specific asset, fund, reserve, account or property of any kind whatsoever owned by the Employer or in which it may have any right, title or interest now or in the future, but the Executive shall have the right to enforce his or her claim against the Employer in the same manner as any unsecured creditor.

SECTION 14. NON-ASSIGNABILITY OF BENEFITS

Neither the Executive, nor his or her designated beneficiary, nor any other person entitled to any payment hereunder, shall have power to transfer, assign, anticipate, mortgage or otherwise encumber any right to receive a payment in advance of the time such payment is due under the provisions of this Plan, and any attempted transfer, assignment, anticipation, mortgage or encumbrance shall be void. No payment hereunder shall be subject to seizure for the payment of public or private debts, judgments, alimony or separate maintenance, or be transferable by operation of law in the event of bankruptcy, insolvency or otherwise.

SECTION 15. ADMINISTRATION OF THE PLAN

The Plan shall be administered by the Compensation Committee, which shall have sole authority to construe and interpret the Plan and issue such rules and regulations as it deems appropriate. The Compensation Committee shall have the duty and responsibility of deciding questions of eligibility, determining the amount, manner and time of payment of any benefits hereunder, and distributing the benefits to covered Executives, their spouses and/or beneficiaries; provided, however, the Compensation Committee may appoint or employ individuals to assist in the administration of the Plan and any other agents it deems advisable, including legal and actuarial counsel. The Compensation Committee's interpretations, determinations, rules and regulations, and calculations shall be final and binding on all persons and parties concerned. If a covered Executive, spouse or beneficiary desires a review of any benefit determination made by the Compensation Committee, he or she shall follow the claims review procedure described in Section 6.06 of the Pension Plan (except that such appeal shall be to the Compensation Committee rather than to the committee responsible for administering the Pension Plan, if different).

SECTION 16. AMENDMENT

This Plan may be amended at any time or from time to time by the Board of Directors of the Employer. Any amendment shall not reduce the benefit of any covered Executive, or any person receiving benefits under this Plan, without the written consent of the affected person. The failure of either the Employer or any covered Executive to enforce any of the provisions hereof shall not be deemed a waiver thereof. No provision of this Plan shall be deemed to have been waived or modified unless such waiver or modification shall be in writing and signed by the party or parties affected by such waiver or modification. The Employer reserves the right to terminate the Plan at any time by action of the Board of Directors. The termination of this Plan shall not affect the benefits of any Executive, Executive's spouse or designated beneficiary covered by the Plan, prior to termination.

SECTION 17. NON-GUARANTEE OF EMPLOYMENT

This Plan shall not be construed as giving any Executive the right to be retained as an Employee of the Employer for any period.

SECTION 18. BINDING EFFECT AND GOVERNING LAW

This Plan shall be binding upon the Executive and the Executive's spouse, beneficiaries, heirs, executors, administrators, personal representatives, successors and assigns, and upon the Employer and its successors and assigns. Except as preempted by ERISA or any other applicable federal law, the Plan shall be construed, enforced and administered, and the validity thereof shall be determined, in accordance with the laws of the State of Indiana.

This Plan was adopted by the Board of Directors of First Merchants Corporation on February 11, 1997, effective as of March 1, 1997. It was amended by the Executive Committee of the Board of Directors, acting on the Board's behalf under authority granted in the Bylaws of the Corporation, on December ___, 1997, retroactively to the effective date of the Plan.

First Merchants Corporation

By /s/ Stefan S. Anderson

Stefan S. Anderson, Chairman

Exhibit 13
Annual Report
Financial Review

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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, 1997 and 1996, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997 (pages 28-46). 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, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

GEO. S. OLIVE & CO. LLC

Indianapolis, Indiana
January 23, 1998

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(In Thousands, Except Share Data)

	1997	1996	1995	1994	1993
OPERATIONS					
Net Interest Income					
Fully Taxable Equivalent Basis.	$ 42,139	$ 39,258	$ 37,049	$ 35,909	$ 34,536
Less Tax Equivalent Adjustment.	2,389	2,111	1,952	1,971	2,011
Net Interest Income	39,750	37,147	35,097	33,938	32,525
Provision for Loan Losses	1,297	1,253	1,388	1,202	1,654
Net Interest Income					
After Provision for Loan Losses	38,453	35,894	33,709	32,736	30,871
Total Other Income.	9,229	8,342	7,592	6,919	7,350
Total Other Expenses.	25,748	24,135	22,992	22,632	22,108
Income Before Income Tax Expense.	21,934	20,101	18,309	17,023	16,113
Income Tax Expense.	7,561	6,959	6,261	5,660	5,250
Income Before Change in Accounting Method . .	14,373	13,142	12,048	11,363	10,863
Change in Accounting Method for Income Taxes.					260
Net Income.	$ 14,373	$ 13,142	$ 12,048	$ 11,363	$ 11,123
PER SHARE DATA (1)					
Income Before Change in Accounting Method . .	$ 2.17	$ 2.00	$ 1.84	$ 1.73	$ 1.64
Basic Net Income.	2.17	2.00	1.84	1.73	1.68
Diluted Net Income.	2.14	1.98	1.82	1.72	1.67
Cash Dividends Paid (2)	1.04	.88	.77	.71	.63
December 31 Book Value.	18.30	17.07	15.99	14.08	13.46
December 31 Market Value (Bid Price).	36.50	25.25	25.75	20.83	19.33
AVERAGE BALANCES					
Total Assets	$ 993,338	$932,144	$890,995	$853,257	$832,756
Total Loans.	675,892	585,905	544,457	513,784	469,782
Total Deposits	800,118	753,661	728,826	698,644	694,453
Total Federal Home Loan Bank Advances.	15,455	9,192	9,000	7,692	5,833
Total Stockholders' Equity	117,014	108,094	99,033	91,466	86,311
YEAR-END BALANCES					
Total Assets	$1,020,136	$967,993	$942,156	$868,153	$842,681
Total Loans.	703,784	631,700	553,074	528,641	495,703
Total Deposits	843,812	794,451	783,936	720,009	688,644
Total Federal Home Loan Bank Advances.	20,700	9,150	9,000	8,000	6,000
Total Stockholders' Equity	121,969	112,687	104,967	92,754	89,257
FINANCIAL RATIOS					
Return on Average Assets	1.45%	1.41%	1.35%	1.33%	1.34%
Return on Average Stockholders' Equity	12.28	12.16	12.17	12.42	12.89
Average Earning Assets to Total Assets	94.77	94.48	94.86	94.46	94.27
Allowance for Loan Losses as % of Total Loans.	.96	1.05	1.21	1.25	1.30
Dividend Payout Ratio.	47.93	40.85	39.49	39.44	37.06
Average Stockholders' Equity to Average Assets	11.78	11.60	11.11	10.72	10.36
Tax Equivalent Yield on Earning Assets (3) . .	8.27	8.13	8.09	7.41	7.46
Cost of Supporting Liabilities	3.79	3.67	3.71	2.95	3.06
Net Interest Margin on Earning Assets.	4.48	4.46	4.38	4.46	4.40

(1) Restated for 3- for- 2 stock splits distributed January, 1993, and October, 1995.

(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.

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

[Graphic; Bar Chart; Return on Average Assets]

[Graphic; Bar Chart; Return on Average Equity]

RESULTS of OPERATIONS

Net income amounted to $14,373,000 or $2.17 per share, an 8.5 percent increase over 1996 at $2.00 per share. Diluted net income per share amounted to $2.14, an 8.1 percent increase over the 1996 figure of $1.98.

Return on assets increased to 1.45 percent, up from 1.41 percent in 1996, and 1.35 percent in 1995.

Return on equity was 12.28 percent in 1997, 12.16 percent in 1996, and 12.17 percent in 1995.

In 1997, First Merchants Corporation ("Corporation") recorded the twenty-second 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 1997, up from 11.6 percent at December 31, 1996. At December 31, 1997, the Corporation had a Tier I risk-based capital ratio of 16.9 percent, total risk-based capital ratio of 17.9 percent, and a leverage ratio of 11.9 percent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 percent and a total risk-based capital ratio of 8.0 percent.

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)

ASSET QUALITY/PROVISION for LOAN LOSSES (continued)

The reduction in non-performing loans is primarily attributable to two loans. One in the amount of $1,000,000 was removed from non-accrual status and one in the amount of $651,000 was removed from restructured status. No material loss is expected on either of these loans.

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 below, totaled $2,551,000 at December 31, 1997. An allowance for losses at December 31, 1997, was not deemed necessary for impaired loans totaling $1,075,000, but an allowance of $407,000 was recorded for the remaining balance of impaired loans of $1,476,000. The average balance of impaired loans for 1997 was $3,414,000.

At December 31, 1997, the allowance for loan losses was $6,778,000, up slightly from year end 1996. As a percent of loans, the allowance was .96 percent, down from 1.05 percent at year end 1996. The decline in the allowance ratio is attributable to significant loan growth.

The provision for loan losses in 1997 was $1,297,000 compared to $1,253,000 in 1996.

	December 31, 1997	December 31, 1996
	(Dollars in Thousands)	
Non-accrual loans	$ 1,410	$ 2,777
Loans contractually past due 90 days or more other than nonaccruing	1,972	1,699
Restructured loans	282	1,540
Total	$ 3,664	$ 6,016

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.

[Graphic; Bar Chart; Net Loan Losses]

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

	1997	1996	1995
	(Dollars in Thousands)		
Allowance for loan losses:			
Balance at January 1	$ 6,622	$ 6,696	$ 6,603
Chargeoffs	1,609	1,636	1,554
Recoveries	468	309	259
Net chargeoffs	1,141	1,327	1,295
Provision for loan losses	1,297	1,253	1,388
Balance at December 31	$ 6,778	$ 6,622	$ 6,696
Ratio of net chargeoffs during the period to average loans outstanding during the period	.17%	.23%	.24%
Peer Group	N/A	.26%	.26%

LIQUIDITY and INTEREST SENSITIVITY

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 investments 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.

The Corporation's liquidity and interest sensitivity position at December 31, 1997, 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, 1997.

INTEREST-RATE SENSITIVITY ANALYSIS
(Dollars in Thousands)

	AT DECEMBER 31, 1997				
	1-180 DAYS	181-365 DAYS	1-5 YEARS	BEYOND 5 YEARS	TOTAL
Rate-Sensitive Assets:					
Federal funds sold and interest-bearing deposits.	$ 9,435				$ 9,435
Investment securities.	52,680	$ 34,688	$ 122,966	$ 37,038	247,372
Loans.	302,943	71,869	263,440	65,532	703,784
Federal Reserve and Federal Home Loan Bank stock . . .	2,976			397	3,373
Total rate-sensitive assets . . .	368,034	106,557	386,406	102,967	963,964
Rate-Sensitive Liabilities:					
Interest-bearing deposits.	304,651	102,033	320,727	788	728,199
Borrowed funds	26,829				26,829
Federal Home Loan Bank advances. . .	2,294	4,294	9,278	4,834	20,700
Total rate-sensitive liabilities.	333,774	106,327	330,005	5,622	775,728
Interest rate sensitivity gap by period .	$ 34,260	$ 230	$ 56,401	$ 97,345	
Cumulative rate sensitivity gap	34,260	34,490	90,891	188,236	
Cumulative rate sensitivity gap ratio at December 31, 1997.	110.3%	107.8%	111.8%	124.3%	

The Corporation had a cumulative positive gap of $34,490,000 in the one year horizon at December 31, 1997, or just over 3 percent of total assets. Net interest income at financial institutions with positive gaps tends to increase when rates increase and generally decrease as interest rates decline.

EARNING ASSETS

Earning assets increased $52 million during 1997.

The following table presents the earning asset mix for the years 1997 and 1996 (at December 31).

Loans grew by $72 million while investment securities declined. This reflects the Corporation's strategy to change the balance sheet mix to emphasize loans which generally carry higher yields than investment securities, and often provide collateral business.

EARNING ASSETS

(Dollars in Millions)	DECEMBER 31 1997	1996
Federal funds sold and interest-bearing time deposits. .	$ 9.4	$ 1.4
Securities available for sale.	212.0	228.4
Securities held to maturity.	35.3	47.2
Mortgage loans held for sale	0.5	0.3
Loans.	703.3	631.4
Federal Reserve and Federal Home Loan Bank stock	3.4	3.1
Total.	$ 963.9	$ 911.8

DEPOSITS, SHORT-TERM BORROWINGS and FEDERAL HOME LOAN BANK ADVANCES

The following table presents the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements with customers, U.S. Treasury demand notes and Federal Home Loan Bank advances) based on year-end levels at December 31, 1997 and 1996.

AS OF DECEMBER 31 (Dollars in Millions)

	DEPOSITS	SHORT-TERM BORROWINGS	FEDERAL HOME LOAN BANK ADVANCES
1997	$ 843.8	$ 26.8	$ 20.7
1996	794.5	45.0	9.2

NET INTEREST INCOME

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

The table below presents the Corporation's asset yields, interest expense, and net interest income as a percent of average earning assets for the three-year period ending in 1997.

Asset yields improved .14 percent (FTE) in 1997, due primarily to a shift in the Corporation's asset mix (a larger percentage in higher-yielding loans, and a smaller percentage in investments.)

Interest costs rose by a similar amount (.12 percent) resulting in a .02 percent increase in net interest income (FTE) as a percent of average earning assets. This "spread" increase accounted for only a small portion of the growth in net interest income. Most of the $2.9 million increase is attributable to growth in earning assets which exceeded $60 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 0F AVERAGE EARNING ASSETS	AVERAGE EARNINGS ASSETS	NET INTEREST INCOME ON A FULLY TAXABLE EQUIVALENT BASIS
1997	8.27%	3.79%	4.48%	$941,351	$ 42,139
1996	8.13	3.67	4.46	880,729	39,258

1995	8.09	3.71	4.38	845,198	37,049

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.

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

Other income in 1996 amounted to $8,342,000 or 9.9 percent higher than in 1995. The increase of $750,000 is primarily attributable to the following five factors:

1. Revenues from fiduciary activities increased $166,000, or 5.9 percent, due to stronger business activity and markets.

2. Deposit service charges increased $195,000, or 6.9 percent, primarily due to changes in pricing.

3. Interchange fees for the Corporation's credit and debit card programs grew by $169,000, or 142 percent, due to increased product offerings.

4. The Corporation recorded securities gains of $148,000 compared to losses of $30,000 in 1995, an increase of $178,000 as shorter maturity, available for sale securities were sold at gains and longer maturity, higher yielding investments were purchased.

5. Personal money order agent fees increased $79,000, or 19.4 percent, due to an increased client base.

OTHER EXPENSE

Total "other expenses" represent non-interest operating expenses of the Corporation. Those expenses amounted to $25,748,000 in 1997, 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.

1996 expenses amounted to $24,135,000, an increase of 5.0 percent from the prior year, or $1,142,000. Including an $813,000 reduction in deposit insurance premiums, remaining operating expenses grew by $1,955,000.

Four major areas account for most of this increase:

1. Salary and benefit expenses increased by $640,000, or 5.0 percent, due to normal salary increases.

2. Equipment expense rose $223,000, again reflecting the Corporation's investment in technology to increase productivity.

3. Expenses related to mergers with Union National Bancorp and Randolph County Bancorp amounted to $258,000.

4. The previous year included a $238,000 refund from the State of Indiana for Intangibles taxes paid in 1988 and 1989.

INCOME TAXES

The increase in 1997 tax expense of $602,000 is attributable primarily to a $1,833,000 increase in net pre-tax income, mitigated somewhat by a $514,000 increase in tax-exempt income. Likewise, the $698,000 increase in 1996 resulted primarily from a $1,792,000 increase in pre-tax net income.

ACCOUNTING MATTERS

REPORTING COMPREHENSIVE INCOME

During 1997, the Financial Accounting Standards Board ("FASB") issued Statement No. 130, REPORTING COMPREHENSIVE INCOME, establishing standards for the reporting of comprehensive income and its components in financial statements. Statement No. 130 is applicable to all entities that provide a full set of financial statements. Enterprises that have no items of other comprehensive income in any period presented are excluded from the scope of this Statement.

Statement No. 130 is effective for interim and annual periods beginning after December 15, 1997. Earlier application is permitted. The Corporation will adopt Statement No. 130 during fiscal year 1998.

DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE

Also in 1997, the FASB issued Statement No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, which supersedes Statement No. 14, FINANCIAL REPORTING FOR SEGMENTS OF A BUSINESS ENTERPRISE. It establishes standards for the way that public enterprises report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. Statement No. 131 defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance.

This standard is effective for financial statement periods beginning after December 15, 1997, and requires comparative information for earlier years to be restated. Due to recent issuance of this standard, management has been unable to fully evaluate the impact, if any, it may have on the Corporation's future financial statement disclosures.

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 employees' 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 the computer programs being written using two digits rather than four to define the applicable year. Any of the Corporation's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations. The Corporation is utilizing both internal and external resources to identify, correct or reprogram and test the systems for the Year 2000 compliance. It is anticipated that all reprogramming efforts will be complete by December 31, 1998, allowing adequate time for testing.

OTHER

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

CONSOLIDATED BALANCE SHEET

(In Thousands, Except Share Data)	December 31 1997	1996
ASSETS		
Cash and due from banks	$ 33,127	$ 33,882
Federal funds sold	9,050	1,150
Cash and cash equivalents	42,177	35,032
Interest-bearing time deposits	385	290
Investment securities		
Available for sale	212,040	228,379
Held to maturity	35,332	47,227
Total investment securities	247,372	275,606
Mortgage loans held for sale	471	284
Loans	703,313	631,416
Less: Allowance for loan losses	(6,778)	(6,622)
Net loans	696,535	624,794
Premises and equipment	15,382	15,303
Federal Reserve and Federal Home Loan Bank stock	3,373	3,090
Interest receivable	8,968	8,643
Core deposit intangibles and goodwill	1,625	1,714
Other assets	3,848	3,237
Total assets	$ 1,020,136	$ 967,993
LIABILITIES		
Deposits		
Noninterest-bearing	$ 115,613	$ 110,175
Interest-bearing	728,199	684,276
Total deposits	843,812	794,451
Short-term borrowings	26,829	45,037
Federal Home Loan Bank advances	20,700	9,150
Interest payable	3,615	3,376
Other liabilities	3,211	3,292
Total liabilities	898,167	855,306
STOCKHOLDERS' EQUITY		
Preferred stock, no-par value Authorized and unissued--500,000 shares		
Common stock, $.125 stated value Authorized--20,000,000 shares Issued and outstanding--6,664,439 and 6,603,319 shares	833	825
Additional paid-in capital	24,140	22,968
Retained earnings	95,449	87,978
Net unrealized gain on securities available for sale	1,547	916
Total stockholders' equity	121,969	112,687
Total liabilities and stockholders' equity	$ 1,020,136	$ 967,993

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT of INCOME

(In Thousands, Except Share Data)	Year Ended December 31, 1997	1996	1995
INTEREST INCOME			
Loans receivable			
Taxable	$ 59,773	$ 52,096	$ 49,060
Tax exempt	116	90	81
Investment securities			
Taxable	10,818	12,832	12,479
Tax exempt	4,320	3,832	3,642
Federal funds sold	172	498	1,028
Deposits with financial institutions	34	16	9
Federal Reserve and Federal Home Loan Bank stock	242	132	149
Total interest income	75,475	69,496	66,448
INTEREST EXPENSE			
Deposits	31,920	29,139	28,227
Short-term borrowings	2,856	2,687	2,628
Federal Home Loan Bank advances	949	523	496
Total interest expense	35,725	32,349	31,351
NET INTEREST INCOME	39,750	37,147	35,097
Provision for loan losses	1,297	1,253	1,388
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	38,453	35,894	33,709
OTHER INCOME			
Fiduciary activities	3,355	2,967	2,801
Service charges on deposit accounts	3,365	3,024	2,829
Other customer fees	1,912	1,659	1,270
Net realized gains (losses)on sales of available-for-sale securities	(14)	148	(30)
Other income	611	544	722
Total other income	9,229	8,342	7,592
OTHER EXPENSES			
Salaries and employee benefits	14,322	13,433	12,792
Net occupancy expenses	1,620	1,537	1,555
Equipment expenses	2,345	2,152	1,929
Marketing expense	851	706	654
Deposit insurance expense	97	12	825
Outside data processing fees	1,077	901	739
Printing and office supplies	1,021	923	1,094
Other expenses	4,415	4,471	3,404
Total other expenses	25,748	24,135	22,992
INCOME BEFORE INCOME TAX	21,934	20,101	18,309
Income tax expense	7,561	6,959	6,261
NET INCOME	$ 14,373	$ 13,142	$ 12,048
NET INCOME PER SHARE:			
Basic	$2.17	$2.00	$1.84
Diluted	2.14	1.98	1.82

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT of CHANGES in STOCKHOLDERS' EQUITY

(In Thousands, Except Share Data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gain (Loss) On Securities Available for Sale	Total
BALANCES, JANUARY 1, 1995	4,876,654	$ 610	$ 22,461	$ 72,615	$(2,932)	$ 92,754
Net income for 1995				12,048		12,048
Cash dividends ($.77 per share)				(4,456)		(4,456)
Net change in unrealized gain (loss) on securities available for sale					4,818	4,818
Stock issued under employee benefit plans	11,175	1	276			277
Stock issued under dividend reinvestment and stock purchase plan	13,928	2	454			456
Stock options exercised	9,267	1	191			192
Stock redeemed	(31,918)	(4)	(1,113)	(2)		(1,119)
Three-for-two stock split	1,683,344	210	(210)			
Cash paid in lieu of issuing fractional shares	(160)		(4)			(4)
BALANCES, DECEMBER 31, 1995	6,562,290	820	22,055	80,205	1,886	104,966
Net income for 1996				13,142		13,142
Cash dividends ($.88 per share)				(5,369)		(5,369)
Net change in unrealized gain (loss) on securities available for sale					(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 ($1.04 per share)				(6,902)		(6,902)
Net change in unrealized gain (loss) on securities available for sale					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

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT of CASH FLOWS

(In Thousands, Except Share Data)

	Year Ended December 31 1997	1996	1995
OPERATING ACTIVITIES:			
Net income	$ 14,373	$ 13,142	$ 12,048
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,297	1,253	1,388
Depreciation and amortization	1,810	1,626	1,482
Amortization of goodwill and intangibles	89	131	131
Deferred income tax	(35)	401	377
Securities amortization, net	236	188	693
Securities losses (gains), net	14	(148)	30
Mortgage loans originated for sale	(7,139)	(2,501)	(4,491)
Proceeds from sales of mortgage loans	6,952	2,952	3,785
Net change in			
Interest receivable	(325)	357	(706)
Interest payable	239	(40)	979
Other adjustments	(1,050)	(593)	67
Net cash provided by operating activities	16,461	16,768	15,783
INVESTING ACTIVITIES:			
Net change in interest-bearing deposits	(95)	(31)	(236)
Purchases of			
Securities available for sale	(68,524)	(113,473)	(91,178)
Securities held to maturity	(2,652)	(22,450)	(41,575)
Proceeds from maturities of			
Securities available for sale	73,786	96,441	35,716
Securities held to maturity	15,878	35,715	62,053
Proceeds from sales of			
Securities available for sale	10,552	13,120	14,165
Net change in loans	(73,038)	(80,404)	(25,629)
Purchase of Federal Home Loan Bank stock	(283)	(389)	
Purchases of premises and equipment	(2,157)	(2,083)	(2,187)
Other investing activities	236	71	367
Net cash used by investing activities	(46,297)	(73,483)	(48,504)
FINANCING ACTIVITIES:			
Net change in			
Demand and savings deposits	5,438	(19,168)	2,604
Certificates of deposit and other time deposits	43,923	29,683	61,323
Short-term borrowings	(18,208)	7,659	(3,254)
Federal Home Loan Bank advances	11,550	7,150	1,000
Repayment of Federal Home Loan Bank advances		(7,000)	
Cash dividends	(6,902)	(5,369)	(4,456)
Stock issued under employee benefit plans	292	298	277
Stock issued under dividend reinvestment and stock purchase plan	669	558	456
Stock options exercised	219	64	192
Stock redeemed			(1,119)
Cash paid in lieu of issuing fractional shares		(2)	(4)
Net cash provided by financing activities	36,981	13,873	57,019
NET CHANGE in CASH and CASH EQUIVALENTS	7,145	(42,842)	24,298
CASH and CASH EQUIVALENTS, BEGINNING of YEAR	35,032	77,874	53,576
CASH and CASH EQUIVALENTS, END of YEAR	$ 42,177	$ 35,032	$ 77,874
ADDITIONAL CASH FLOWS INFORMATION:			
Interest paid	$ 35,486	$ 32,388	$ 30,372
Income tax paid	7,602	6,203	5,641

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table Dollar Amounts In Thousands, Except Share Data)

NOTE 1
NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of First Merchants Corporation ("Corporation"), and its wholly owned subsidiaries, First Merchants Bank, N.A. ("First Merchants"), Pendleton Banking Company ("Pendleton"), First United Bank ("First United"), The Randolph County Bank ("Randolph County"), and Union County National Bank ("Union National"), (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 National operate under national bank charters and provide full banking services, including trust services. As national banks, First Merchants and Union National 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. Certain prior year amounts have been reclassified to conform with current classifications.

INVESTMENT SECURITIES - Debt securities are classified as held to maturity when the Corporation has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost.

Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported separately in 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.

MORTGAGE LOANS HELD FOR SALE are carried at the lower of aggregate cost or market. Net unrealized losses are recognized through a valuation allowance by charges to income.

LOANS are carried at the principal amount outstanding. 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. Payments with insignificant delays not exceeding 60 days outstanding are not considered impaired. Certain nonaccrual and substantially delinquent loans may be considered to be impaired. 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, 1997, 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)

(Table Dollar Amounts In Thousands, Except Share Data)

NOTE 1
NATURE of OPERATIONS and SUMMARY of SIGNIFICANT ACCOUNT 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 27, 1995.

NOTE 2
BUSINESS COMBINATIONS

On August 1, 1996, the Corporation issued 942,685 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 565,705 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, 1995. Separate operating results of Union National Bancorp and Randolph County Bancorp for the periods prior to the merger were as follows:

	1996	1995
Net interest income:		
First Merchants Corporation	$ 33,060	$ 27,881
Union National Bancorp	2,961	4,562
Randolph County Bancorp	1,126	2,654
Combined	$ 37,147	$ 35,097
Net income:		
First Merchants Corporation	$ 11,556	$ 9,858
Union National Bancorp	974	1,523
Randolph County Bancorp	612	667
Combined	$ 13,142	$ 12,048
Net income per share:		
Basic:		
First Merchants Corporation	$ 1.76	$ 1.50
Union National Bancorp	.15	.23
Randolph County Bancorp	.09	.11
Combined	$ 2.00	$ 1.84
Diluted:		
First Merchants Corporation	$ 1.74	$ 1.49
Union National Bancorp	.15	.23
Randolph County Bancorp	.09	.10
Combined	$ 1.98	$ 1.82

(Table Dollar Amounts In Thousands, Except Share Data)

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, 1997, was $10,973,000.

NOTE 4
INVESTMENT SECURITIES

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 1997				
U.S. Treasury	$ 19,207	$ 104	$ 11	$ 19,300
Federal agencies	66,783	405	48	67,140
State and municipal	67,842	1,815	28	69,629
Mortgage-backed securities	36,682	362	86	36,958
Other asset-backed securities	487	2	54	435
Corporate obligations	18,219	139	30	18,328
Marketable equity securities	250			250
Total available for sale	209,470	2,827	257	212,040
Held to maturity at December 31, 1997				
U.S. Treasury	249		2	247
Federal agencies	3,412	6	1	3,417
State and municipal	26,206	252	2	26,456
Mortgage-backed securities	1,255	4	1	1,258
Other asset-backed securities	4,210	7	166	4,051
Total held to maturity	35,332	269	172	35,429
Total investment securities	$ 244,802	$3,096	$ 429	$ 247,469
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

The amortized cost and fair value of securities held to maturity and available for sale at December 31, 1997, 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, 1997:				
Due in one year or less	$ 34,626	$ 34,681	$ 11,500	$ 11,529
Due after one through five years	102,944	103,712	15,573	15,742
Due after five through ten years	33,590	35,079	2,264	2,319
Due after ten years	891	925	530	530
	172,051	174,397	29,867	30,120
Mortgage-backed securities	36,682	36,958	1,255	1,258
Other asset-backed securities	487	435	4,210	4,051
Marketable equity securities	250	250		
Totals	$ 209,470	$ 212,040	$ 35,332	$ 35,429

Securities with a carrying value of approximately $92,991,000 and $102,787,000 were pledged at December 31, 1997 and 1996, to secure certain deposits, Federal Home Loan Bank advances and for other purposes as permitted or required by law.

Proceeds from sales of securities available for sale during 1997, 1996 and 1995 were $10,552,000, $13,120,000 and $14,165,000. Gross gains of $0, $148,000 and $57,800 and gross losses of $14,000, $0 and $113,900 were realized on those sales.

In December, 1995, the Corporation transferred certain securities from held to maturity to available for sale in accordance with a transition reclassification allowed by the Financial Accounting Standards Board. Such securities had a carrying value of $52,119,000 and a fair value of $52,811,000.

NOTE 5
LOANS and ALLOWANCE

	1997	1996
Loans at December 31:		
Commercial and industrial loans	$ 148,281	$ 132,134
Bankers' acceptances and loans to financial institutions	705	625
Agricultural production financing and other loans to farmers	16,764	18,906
Real estate loans:		
Construction	21,389	13,167
Commercial and farmland	97,503	97,596
Residential	287,072	253,530
Individuals' loans for household and other personal expenditures	125,706	113,507
Tax-exempt loans	2,598	1,643
Other loans	3,782	1,672
	703,800	632,780
Unearned interest on loans	(487)	(1,364)
Total loans	$ 703,313	$ 631,416

	1997	1996	1995
Allowance for loan losses:			
Balance, January 1	$ 6,622	$ 6,696	$ 6,603
Provision for losses	1,297	1,253	1,388
Recoveries on loans	468	309	259
Loans charged off	(1,609)	(1,636)	(1,554)
Balance, December 31	$ 6,778	$ 6,622	$ 6,696

(continued)

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

NOTE 5
LOANS and ALLOWANCE (continued)

Information on impaired loans is summarized below:

	1997	1996	1995
As of, and for, the year ending December 31:			
Impaired loans with an allowance	$ 1,476	$ 3,124	$ 2,314
Impaired loans for which the discounted cash flows or collateral value exceeds the carrying value of the loan	1,075	868	2,498
Total impaired loans	$ 2,551	$ 3,992	$ 4,812
Allowance for impaired loans (included in the Corporation's allowance for loan losses)	$ 407	$ 1,092	$ 1,177
Average balance of impaired loans	3,414	5,213	4,650
Interest income recognized on impaired loans	180	311	153
Cash basis interest included above	162	291	93

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 were as shown below:

Balances, January 1, 1997	$ 9,063
New loans, including renewals	5,547
Payments, etc., including renewals	(2,177)
Balances, December 31, 1997	$ 12,433

NOTE 6
PREMISES and EQUIPMENT

	1997	1996
Cost at December 31:		
Land	$ 2,826	$ 2,829
Buildings and leasehold improvements	13,723	13,863
Equipment	15,320	13,559
Total cost	31,869	30,251
Accumulated depreciation	(16,487)	(14,948)
Net	$ 15,382	$ 15,303

The Corporation is committed under various noncancelable lease contracts for certain subsidiary office facilities. Total lease expense for 1997, 1996 and 1995 was $141,000, $134,000 and $127,000, respectively. The future minimum rental commitments required under the operating leases in effect at December 31, 1997, expiring at various dates through the year 2016, follow on the right for the years ending December 31:

1998	$ 135
1999	123
2000	106
2001	71
2002	62
After 2002	4
Total future minimum obligations	$ 501

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

NOTE 7
DEPOSITS

	1997	1996
Deposits at December 31:		
Demand deposits	$ 234,905	$ 225,437
Savings deposits	176,953	170,179
Certificates and other time deposits of $100,000 or more	104,100	82,802
Other certificates and time deposits	327,854	316,033
Total deposits	$ 843,812	$ 794,451

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

1998	$ 298,311
1999	87,074
2000	27,407
2001	10,340
2002	8,034
After 2002	788
	$ 431,954

NOTE 8
SHORT-TERM BORROWINGS

	1997	1996
Short-term borrowings at December 31:		
Federal funds purchased	$ 4,070	$ 20,725
Securities sold under repurchase agreements	15,398	20,054
U.S. Treasury demand notes	7,361	4,258
Total short-term borrowings	$ 26,829	$ 45,037

Securities sold under repurchase agreements consist of obligations of the Banks to other parties. The obligations are secured by U.S. Treasury and Federal agency obligations and generally mature within one to 185 days from the transaction date. The maximum amount of outstanding agreements at any month-end during 1997 and 1996 totaled $33,802,000 and $52,221,000, and the daily average of such agreements totaled $31,327,000 and $42,140,000.

NOTE 9
FEDERAL HOME LOAN BANK ADVANCES

Advances from FHLB at December 31:

	1997		1996	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Maturities in years ending December 31:				
1997			$ 2,000	4.76%
1998	$ 5,000	5.60%	5,000	5.61
1999	7,150	6.02	2,150	5.81
2000	1,850	6.36		
2002	150	7.07		
Thereafter	6,550	6.65		
Total advances	$ 20,700	6.16	$ 9,150	5.48

The terms of a security agreement with the FHLB require the Corporation to pledge as collateral for advances qualifying first mortgage loans 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 10
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 $11,877,000 and $5,997,000 at December 31, 1997 and 1996.

In 1996, the Corporation 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.

NOTE 11
INCOME TAX

	1997	1996	1995
Income tax expense, for the year ended December 31:			
Currently payable:			
Federal	$ 5,702	$ 4,903	$ 4,400
State	1,894	1,655	1,484
Deferred:			
Federal	(21)	336	299
State	(14)	65	78
Total income tax expense	$ 7,561	$ 6,959	$ 6,261
Reconciliation of federal statutory to actual tax expense:			
Federal statutory income tax at 34%	$ 7,458	$ 6,834	$ 6,225
Tax-exempt interest	(1,257)	(1,140)	(1,087)
Effect of state income taxes	1,241	1,135	1,031
Other	119	130	92
Actual tax expense	$ 7,561	$ 6,959	$ 6,261

Tax expense (benefit) applicable to security gains and losses for the years ended December 31, 1997, 1996 and 1995, was ($5,700), $60,000 and ($12,200), respectively.

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

	1997	1996
Deferred tax asset at December 31:		
Assets		
Differences in accounting for loan fees		$ 157
Differences in accounting for loan losses	$ 2,692	2,571
Deferred compensation	313	285
Differences in accounting for pensions and other employee benefits	183	118
Total assets	3,188	3,131
Liabilities		
Differences in depreciation methods	1,012	983
Differences in accounting for loans and securities	125	78
Differences in accounting for loan fees	28	
Net unrealized gain on securities available for sale	1,023	607
State income tax	146	152
Other	69	75
Total liabilities	$ 2,403	$ 1,895
Net deferred tax asset	$ 785	$ 1,236

(Table Dollar Amounts In Thousands, Except Share Data)

NOTE 12
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.

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

	1997	1996
Commitments to extend credit	$138,828	$137,653
Standby letters of credit	4,649	2,874

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 Banks 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 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, 1997, available for 1998 dividends to the Corporation is $22,736,000. 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, 1997, was $118,792,000, of which $96,056,000 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, 1997, there were 342,924 shares of common stock reserved for purchase under the plan.

On August 8, 1995, 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 27, 1995, to holders of record on October 20, 1995.

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, 1997, 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

(continued)

(Table Dollar Amounts In Thousands, Except Share Data)

NOTE 14
REGULATORY CAPITAL (continued)

framework for prompt corrective action. To be categorized as well capitalized, the Corporation and Banks must maintain a minimum total capital, 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:

	1997				1996			
	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	$125,762	17.9%	$56,166	8.0%	$116,693	18.0%	$51,884	8.0%
First Merchants	75,539	17.4	34,756	8.0	69,651	17.8	31,300	8.0
Pendleton	12,256	17.4	5,628	8.0	11,383	17.9	5,074	8.0
First United	7,570	18.2	3,332	8.0	7,091	17.2	3,302	8.0
Randolph County	10,278	15.1	5,448	8.0	9,985	14.9	5,364	8.0
Union National	18,075	17.0	8,498	8.0	17,672	17.9	7,914	8.0
Tier I Capital (1) (to risk-weighted assets)								
Consolidated	$118,984	16.9%	$28,083	4.0%	$110,072	17.0%	$25,942	4.0%
First Merchants	71,900	16.6	17,378	4.0	66,143	16.9	15,650	4.0
Pendleton	11,506	16.4	2,814	4.0	10,629	16.8	2,537	4.0
First United	7,133	17.1	1,666	4.0	6,663	16.1	1,651	4.0
Randolph County	9,548	14.0	2,724	4.0	9,234	13.8	2,682	4.0
Union National	16,852	15.9	4,249	4.0	16,492	16.7	3,957	4.0
Tier I Capital (1) (to average assets)								
Consolidated	$118,984	11.9%	$40,010	4.0%	$110,072	11.6%	$38,012	4.0%
First Merchants	71,900	11.7	24,548	4.0	66,143	11.6	22,849	4.0
Pendleton	11,506	11.8	3,897	4.0	10,629	12.3	3,462	4.0
First United	7,133	11.5	2,481	4.0	6,663	11.3	2,351	4.0
Randolph County	9,548	14.0	2,733	4.0	9,234	12.9	2,863	4.0
Union National	16,852	9.1	7,438	4.0	16,492	9.5	6,954	4.0

(1) As defined by regulatory agencies

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. Pension expense was $139,000 for 1997, $191,000 for 1996 and $253,000 for 1995.

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

(Table Dollar Amounts In Thousands, Except Share Data)

NOTE 15
EMPLOYEE BENEFIT PLANS (continued)

	1997	1996
Actuarial present value of:		
Accumulated benefit obligation including vested benefits of $12,020 and $10,885	$ 12,322	$ 11,133
Projected benefit obligation for service rendered to date	$(14,454)	$ (13,060)
Plan assets at fair value, primarily interest-bearing deposits and corporate bonds and securities	18,865	15,188
Plan assets in excess of projected benefit obligation	4,411	2,128
Unrecognized net gain from experience different than that assumed	(4,169)	(1,615)
Unrecognized prior service cost	(156)	(169)
Unrecognized net transition asset	(519)	(638)
Accrued pension cost included in the balance sheet	$(433)	$(294)

	1997	1996	1995
Pension expense includes the following components:			
Service cost-benefits earned during the year	$ 624	$ 537	$ 462
Interest cost on projected benefit obligation	956	921	845
Actual return on plan assets	(4,251)	(1,966)	(2,633)
Net amortization and deferral	2,810	699	1,579
	$ 139	$ 191	$ 253

	1997	1996	1995
Assumptions used in the accounting as of December 31 were:			
Discount rate	7.40%	7.50%	7.50%
Rate of increase in compensation	4.50%	4.50%	4.50%
Expected long-term rate of return on assets	9.00%	8.75%	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 112,500 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, 1997.

On March 31, 1994, stockholders approved the 1994 Stock Option Plan, reserving 315,000 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 80,525 shares available for grant at December 31, 1997.

The table on the following page 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, 1997, 1996 and 1995. The number of shares and prices have been restated to give effect to the Corporation's 1995 stock split.

(continued)

(Table Dollar Amounts In Thousands, Except Share Data)

NOTE 15
EMPLOYEE BENEFIT PLANS (continued)

Options	1997 Shares	1997 Weighted Average Exercise Price	1996 Shares	1996 Weighted Average Exercise Price	1995 Shares	1995 Weighted Average Exercise Price
Outstanding, beginning of year....	272,122	$ 19.37	223,059	$18.07	179,807	$15.81
Granted...........................	64,250	31.36	53,300	24.27	57,150	24.16
Exercised.........................	(37,953)	14.99	(4,237)	15.23	(13,898)	13.26
Outstanding, end of year..........	298,419	$ 22.47	272,122	$19.37	223,059	$18.07
Options exercisable at year end....	234,169		218,822		165,909	
Weighted-average fair value of options granted during the year..		$ 6.32		$ 5.09		$4.90

As of December 31, 1997, other information by exercise price range for options outstanding and exercisable is as follows:

Exercise Price Range	Outstanding: Number Of Shares	Outstanding: Weighted-Average Exercise Price	Outstanding: Weighted-Average Remaining Contractual Life	Exercisable: Number Of Shares	Exercisable: Weighted-Average Exercise Price
$ 9.11 - $11.33	36,956	$10.51	2.5 years	36,956	$10.51
17.22 - 25.00	197,213	21.82	7.0 years	197,213	21.82
31.25 - 31.38	64,250	31.36	9.5 years		
	298,419	$22.47	7.0 years	234,169	$20.04

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:

	1997	1996
Risk-free interest rates...............................	6.54%	6.66%
Dividend yields..	3.37%	3.41%
Volatility factors of expected market price common stock	11.20%	12.00%
Weighted-average expected life of the options...........	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 below:

	1997	1996
Net income		
As reported............	$14,373	$13,142
Pro forma..............	13,948	12,852
Earnings per share		
Basic:		
As reported............	$ 2.17	$ 2.00
Pro forma..............	2.10	1.95
Diluted:		
As reported............	$ 2.14	$ 1.98
Pro forma..............	2.07	1.93

In 1994, the stockholders approved the 1994 Employee Stock Purchase Plan, enabling eligible employees to purchase the Corporation's common stock. A total of 168,750 shares of the Corporation's common stock are reserved for issuance pursuant to the plan. The price of the stock to be paid by the employees is determined by the Corporation's compensation committee, but may not be less than 85 percent of the lesser of the fair market value of the Corporation's common stock at the beginning or at the end of the offering period. Common stock purchases are made annually and are paid through advance payroll deductions of up to 20 percent of eligible compensation. Participants under the plan purchased 13,690 shares in 1997 at $21.25 per share. The fair market value per share on the purchase date was $31.25.

At December 31, 1997, there were 123,122 shares of Corporation common stock reserved for purchase under the plan, and $191,000 has been withheld from compensation, plus interest, toward the purchase of shares after June 30, 1998, 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 1997 and 1996, respectively: dividend yield of 3.37 and 3.41 percent; an expected life of one year for both years; expected volatility of 11.20 and 12.00 percent; and risk-free interest rates of 6.54 and 6.66 percent. The fair value of those purchase rights granted in 1997 and 1996 was $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 percent (30 percent at Union National) for the first 5 percent (6 percent at Union National) of base salary contributed by participants. The Banks' expense for the plans was $110,000 for 1997, $92,000 for 1996 and $81,000 for 1995. Union National's plan was merged with the Corporation's plan as of December 31, 1996.

Union National had an Employee Stock Ownership Plan covering substantially all of its employees. The plan was terminated in 1997. The cost of the plan was borne by Union National through contributions to an Employee Stock Ownership Trust in amounts determined by its Board of Directors. The contributions to the plan in 1997, 1996 and 1995 were $0, $91,700 and $79,000, respectively.

NOTE 16

Net Income Per Share

	Year Ended December 31, 1997			1996			1995		
	Income	Weighted-Average Shares	Per Share Amount	Income	Weighted-Average Shares	Per Share Amount	Income	Weighted-Average Shares	Per Share Amount
Basic net income per share:									
Net income available to									

common stockholders.......	$14,373	6,633,535	$2.17	$13,142	6,581,167	$2.00	$12,048	6,563,559	$1.84
Effect of dilutive stock options		90,105			66,371			57,254	
Diluted net income per share:									
Net income available to common stockholders and assumed conversions	$14,373	6,723,640	$2.14	$13,142	6,647,538	$1.98	$12,048	6,620,813	$1.82

(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, SECURITIES SOLD UNDER REPURCHASE AGREEMENTS and U.S. TREASURY DEMAND NOTES--These financial instruments are short-term borrowing arrangements. The rates at December 31, 1997 and 1996, approximate market rates, thus the fair value approximates carrying value.

FEDERAL HOME LOAN BANK ADVANCES--The fair value of 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:

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets at December 31:				
Cash and cash equivalents	$ 42,177	$ 42,177	$ 35,032	$ 35,032
Interest-bearing deposits	385	385	290	290
Investment securities available for sale	212,040	212,040	228,379	228,379
Investment securities held to maturity	35,332	35,429	47,227	47,494
Mortgage loans held for sale	471	471	284	284
Loans	703,313	704,335	631,416	632,151
FRB and FHLB stock	3,373	3,373	3,090	3,090
Interest receivable	8,968	8,968	8,643	8,643
Liabilities at December 31:				
Deposits	843,812	845,277	794,451	795,369
Short-term borrowings:				
Federal funds purchased	4,070	4,070	20,725	20,725
Securities sold under repurchase agreements	15,398	15,398	20,054	20,054
U.S. Treasury demand notes	7,361	7,361	4,258	4,258
FHLB advances	20,700	21,114	9,150	9,340
Interest payable	3,615	3,615	3,376	3,376

(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	
	1997	1996
ASSETS		
Cash	$ 318	$ 413
Security purchased with agreement to resell to an affiliate	2,000	1,000
Investment securities available for sale	250	258
Investment in subsidiaries	118,732	110,349
Goodwill	553	570
Other assets	230	195
Total assets	$ 122,083	$ 112,785
LIABILITIES	$ 114	$ 98
STOCKHOLDERS' EQUITY	121,969	112,687
Total liabilities and stockholders' equity	$ 122,083	$ 112,785

CONDENSED STATEMENT OF INCOME

	Year Ended December 31		
	1997	1996	1995
INCOME			
Dividends from subsidiaries	$ 6,903	$ 5,420	$ 5,378
Other income	101	25	51
Total income	7,004	5,445	5,429
EXPENSES			
Amortization of core deposit intangibles, goodwill, and fair value adjustments	45	43	38
Business combination expenses		258	
Other expenses	591	269	189
Total expenses	636	570	227
INCOME BEFORE INCOME TAX BENEFIT and EQUITY in UNDISTRIBUTED INCOME of SUBSIDIARIES	6,368	4,875	5,202
Income tax benefit	(193)	(100)	(72)
INCOME BEFORE EQUITY in UNDISTRIBUTED INCOME of SUBSIDIARIES	6,561	4,975	5,274
Equity in undistributed income of subsidiaries	7,812	8,167	6,774
NET INCOME	$ 14,373	$ 13,142	$ 12,048

(continued)

NOTES to CONSOLIDATED FINANCIAL STATEMENTS
(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		
	1997	1996	1995
OPERATING ACTIVITIES:			
Net income	$ 14,373	$ 13,142	$ 12,048
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	17	20	47
Equity in undistributed income of subsidiaries	(7,812)	(8,167)	(6,774)
Security gains		(19)	(20)
Net change in:			
Other assets	25	567	(57)
Other liabilities	16	(337)	81
Net cash provided by operating activities	6,619	5,206	5,325
INVESTING ACTIVITIES:			
Purchase of a security with an agreement to resell	(1,000)	(1,000)	
Purchase of securities available for sale			(309)
Proceeds from sales of securities available for sale	8	103	113
Other investing activities		(78)	
Net cash used by investing activities	(992)	(975)	(196)
FINANCING ACTIVITIES:			
Cash dividends	(6,902)	(5,369)	(4,456)
Stock issued under employee benefit plans	291	298	277
Stock issued under dividend reinvestment and stock purchase plan	726	558	456
Stock options exercised	163	64	192
Stock redeemed			(1,119)
Cash paid in lieu of issuing fractional shares		(2)	(4)
Net cash used by financing activities	(5,722)	(4,451)	(4,654)
Net change in cash on deposit	(95)	(220)	475
Cash on deposit, beginning of year	413	633	158
Cash on deposit, end of year	$ 318	$ 413	$ 633

NOTE 19
QUARTERLY RESULTS of OPERATIONS (Unaudited)

The following table sets forth certain quarterly results for the years ended December 31, 1997 and 1996:

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
1997:									
March	$ 17,884	$ 8,343	$ 9,541	$ 287	$ 3,429	6,605,012	6,692,974	$ .52	$ .51
June	18,980	8,901	10,079	290	3,707	6,618,723	6,702,709	.56	.55
Sept.	19,042	9,132	9,910	375	3,536	6,649,993	6,743,407	.53	.53
Dec.	19,569	9,349	10,220	345	3,701	6,660,414	6,764,472	.56	.55
	$ 75,475	$ 35,725	$ 39,750	$1,297	$14,373	6,633,535	6,723,640	$ 2.17	$ 2.14
1996:									
March	$ 17,010	$ 8,037	$ 8,973	$ 280	$ 3,187	6,564,529	6,633,789	$ .49	$ .48
June	16,992	7,856	9,136	300	3,273	6,570,648	6,640,592	.50	.49
Sept.	17,511	8,201	9,310	295	3,221	6,591,219	6,649,897	.49	.49
Dec.	17,982	8,255	9,727	378	3,461	6,598,271	6,665,873	.52	.52
	$ 69,495	$ 32,349	$ 37,146	$1,253	$ 13,142	6,581,167	6,647,538	$ 2.00	$ 1.98

[GRAPHIC:MAP;FIRST MERCHANTS CORPORATION MARKET AREA]

First
Merchants
Corporation
Market Area

STOCKHOLDER INFORMATION

Corporate Office
200 East Jackson Street
Muncie, IN 47305
765-747-1500
http://firstmerchants.com

First Merchants Corporation currently provides services through 24 offices located in Delaware, Madison, Henry, Fayette, Wayne, Union and Randolph counties in Indiana.

ANNUAL MEETING

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

Tuesday, April 7, 1998
3:30 p.m.
Horizon Convention Center
401 South High Street
Muncie, Indiana

First Merchants Corporation of Muncie, Indiana, was organized in September 1982, as the bank holding company for The Merchants National Bank of Muncie, 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, established in 1882.

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

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

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.

STOCK PRICE AND DIVIDEND INFORMATION

	PRICE PER SHARE					
QUARTER	HIGH		LOW		DIVIDENDS DECLARED	
	1997	1996	1997	1996	1997	1996
First Quarter	$30.00	$27.50	$25.25	$25.00	$ .24	$ .20
Second Quarter	30.75	27.50	27.75	24.50	.24	.20
Third Quarter	32.38	26.00	30.00	23.25	.28	.24
Fourth Quarter	38.00	26.75	32.13	24.06	.28	.24

Prices are as reported by the National Association of Securities Dealers Automated Quotation - National Market System.

Numbers rounded to nearest cent when applicable.

STOCK INFORMATION

COMMON STOCK LISTING

First Merchants Corporation common stock is trader over-the-counter on the NASDAQ National Market System. Quotations are carried in many daily papers. The NASDAQ symbol is FMRE (Cusip #320817-10-9). At the close of business on December 31, 1997, the number of shares outstanding was 6,664,439. There were 1,473 stockholders of record on that date.

GENERAL STOCKHOLDER INQUIRIES

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

Mr. 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

MARKET MAKERS

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

Robert W. Baird & Co., Inc.
City Securities Corporation
Herzog, Heine, Geduld, Inc.
Howe, Barnes & Johnson, Inc.
McDonald and Company
NatCity Investments, Inc.
David A. Noyes and Company

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 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

ANNUAL REPORT APPENDIX - GRAPHIC & IMAGE INFORMATION (Continued)

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Bar Chart: RETURN on AVERAGE ASSETS

A bar graph with the following plot points for the respective years.

RETURN ON AVERAGE ASSETS
(per cent)

	1995	1996	1997
Return on Average Assets	1.35%	1.41%	1.45%

A narrative discussion of this data is provided in the Management's Discussion & Analysis, under the caption "Results of Operations."

- --

Bar Chart: RETURN on AVERAGE EQUITY

A bar graph with the following plot points for the respective years.

RETURN ON AVERAGE EQUITY
(per cent)

	1995	1996	1997
Return on Average Equity	12.17%	12.16%	12.28%

A narrative discussion of this data is provided in the Management's Discussion & Analysis, under the caption "Results of Operations."

- --

Bar Chart: NET LOAN LOSSES

A bar graph with the following plot points for the respective years.

NET LOAN LOSSES
(as a per cent of average loans)

	1995	1996	1997
First Merchants Corporation	.24%	.23%	.17%
Peer Group	.26%	.26%	N/A

A narrative discussion of this data is provided in the Management's Discussion & Analysis, under the caption "Asset Quality/Provision for Loan Losses."

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ANNUAL REPORT APPENDIX - GRAPHIC & IMAGE INFORMATION

MAP: FIRST MERCHANTS CORPORATION MARKET AREA

This graphic is a map of Indiana showing the market area for First Merchants Corporation ("Corporation"). The map illustrates the location of Delaware, Madison, Henry, Randolph, Union, Fayette, and Wayne counties, Indiana. The map identifies the communities with Corporation offices. The following table summarizes the Corporation's office locations:

LOCATION	COUNTY
Muncie	Delaware
Albany	Delaware
Daleville	Delaware
Eaton	Delaware
Pendleton	Madison
Edgewood	Madison
Ingalls	Madison
Lapel	Madison
Markleville	Madison
Middletown	Henry
Sulphur Springs	Henry
Mooreland	Henry
Winchester	Randolph
Connersville	Fayette
Liberty	Union
Richmond	Wayne

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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 23, 1998, 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/ Geo. S. Olive & Co. LLC

Indianapolis, Indiana
March 22, 1998

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1,000

12-MOS
DEC-31-1997
JAN-01-1997
DEC-31-1997
33,127
385
9,050
0
212,040
35,332
35,429
703,784
6,778
1,020,136
843,812
26,829
6,826
20,700
0
0
833
121,136
1,020,136
59,889
15,138
448
75,475
31,920
35,725
39,750
1,297
(14)
25,748
21,934
14,373
0
0
14,373
2.17
2.14
4.48
1,410
1,972
282
7,881
6,622
1,609
468
6,778
5,364
0
1,414

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, 1998, will be filed as an amendment to the 1997 Annual Report on Form 10-K no later than October 28, 1998.